THE FREEMAN

Ideas On Liberty

- Great Myths of the Great Depression
- It's a Jungle Out There!
- Mafia Capitalism or Red Legacy?
- Who Wins in Strikes?

AUGUST 1998

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THE FREEMAN
Ideas On Liberty
August 1998 Vol. 48, No. 8

FEATURES

454 **Technology and Happiness** *by Allan Levite*
Affluence and human contentment.

458 **How to Get Action** *by Leonard E. Read*
Self-improvement is the key to advancing liberty.

461 **How Environmentalism Disdains the Poor** *by E. Calvin Beisner*
Growing economies are the environment's—and the poor's—best hope.

464 **It's a Jungle Out There! What We Can Learn from the Privatization of Zoos** *by Keith Wade*
Two Pittsburgh institutions show the way.

469 **Mafia Capitalism or Red Legacy?** *by Gary Dempsey and Aaron Lukas*
The truth behind Russia's organized-crime wave.

473 **A Letter from Russia** *by Grigory Shishatsky*
Observations from our unofficial Russian correspondent.

478 **Great Myths of the Great Depression** *by Lawrence W. Reed*
A review of the facts.

485 **Capitalism: Discrimination's Implacable Enemy** *by John Hood*
How business success reduces race and sex bias.

490 **Pounds of Prevention—Ounces of Cure** *by George C. Leef*
Government's clumsy and coercive efforts to protect us.

494 **Individualist Feminism: The Lost Tradition** *by Wendy McElroy*
Rediscovering a deep, rich history.

COLUMNS

Center *NOTES from FEE*—**Arrogant Antitrusters** *by Donald J. Boudreaux*

467 *POTOMAC PRINCIPLES*—**Outmoded Paternalism** *by Doug Bandow*

476 *PERIPATETICS*—**Creative Apathy** *by Sheldon Richman*

483 *ECONOMIC NOTIONS*—**Specialization and Wealth** *by Dwight R. Lee*

500 *ECONOMICS on TRIAL*—**What's Left of Marxism?** *by Mark Skousen*

511 *THE PURSUIT of HAPPINESS*—**Who Wins in Strikes?** *by Charles W. Baird*

DEPARTMENTS

450 **Perspective—All the World's a Classroom** *by Sheldon Richman*

452 **It Just Ain't So!** *by Donald J. Boudreaux*

502 **Book Reviews**

•**Why Our Children Can't Read and What We Can Do About It** by Diane McGuinness, reviewed by Samuel L. Blumenfeld; **Liberal Racism** by Jim Sleeper, reviewed by Brad Stetson; **Common Sense and Common Law for the Environment: Creating Wealth in Hummingbird Economies** by Bruce Yandle, reviewed by P.J. Hill; **The Virtue of Civility: Selected Essays on Liberalism, Tradition, and Civil Society** by Edward Shils, reviewed by Robert A. Sirico; **Property and Freedom** by Bernard H. Siegan, reviewed by George C. Leef; **J.-B. Say: An Economist in Troubled Times,** edited by R. R. Palmer, reviewed by Aaron Steelman.

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PERSPECTIVE

All the World's a Classroom

Economic education can happen any time, any place, at any age. Economics is the study of action and its implications for production and exchange. As such, it is accessible to children from an early age. Since every child acts, chooses, and exchanges, nothing is more within the reach of children than the basics of economics properly conceived. It's simply a matter of making the implicit explicit.

One of the offenses that the modern economics profession should have to answer for is rendering the discipline dull, dismal, and mostly irrelevant. Had my first contact with the subject been Econ 101 at Temple University, I'd have written it off as useless right there. (On the other hand, had former Temple econ prof Walter Williams been there during my stint, things would have been entirely different.)

No surprise that we find economics lessons wherever we look. Choice is everywhere. It's made necessary by scarcity, which itself is the result of valuation. Something becomes scarce only when human beings find a use for it. Crude oil was all too abundant until a Yale University chemist distilled kerosene from it in the nineteenth century. Before that, a dirt farmer who found oil would pay someone to take it away. After that, he moved to Beverly . . . Hills, that is. This doesn't work in reverse: rare things are not necessarily valuable—smallpox, for example.

My daughters, son (ages 14, 12, and 10), and I recently saw a commercial offering lottery winners whose cash would be paid out over 20 years a lump sum right now. "Why would that company or a lottery winner be interested in that deal?" I asked the kids. There ensued a lively discussion of exchange, time, and interest. They had no trouble understanding why someone might trade a million dollars payable at $50,000 over 20 years for something less than a million dollars today. They couldn't say how much less they would accept, but they got the principle. Actually, we had discussed "time preference" on an earlier occasion, when I asked them to choose between having one candy bar today or two

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next week. That provoked a good discussion.

Economics is everywhere because alternatives are everywhere. To be is to act. To look around is to find oneself in the best economics classroom.

* * *

People who don't like industrial society often complain that technology makes us no happier than our forebears were. Perhaps. But does that mean modern gadgetry is not worth having? Allan Levite isn't so sure.

We continue our observance of the 100th anniversary of FEE founder Leonard E. Read's birth with his article on libertarian methodology, "How to Get Action."

The environmental movement undercuts its own stated goals whenever it proposes measures that would stifle industrial progress in the developing world. That's because, as Calvin Beisner writes, a healthful environment requires affluence.

Many government services have been candidates for privatization. But what about something as complex as a zoo? Keith Wade tells of two Pittsburgh animal parks that are doing quite well in private hands.

The image of Russia today is one of a land writhing under a crude embryonic capitalism dominated by organized crime. Gary Dempsey and Aaron Lukas look deeper and see, instead, a land suffering the vestiges of Bolshevism.

But despite its problems, life improves for Russians, at least those who are open to the changes and uncertainties of civil society. So writes Grigory Shishatsky in his "Letter from Russia."

There was no Great Depression. But there was a Great, Great, Great, Great Depression, courtesy of foolhardy policies from both Herbert Hoover and Franklin Delano Roosevelt. Lawrence Reed, taking a break from his monthly column, explains.

Anti-capitalists are apt to pin every possible charge on the free market, even when the charges contradict each other. Business people put profits before people. What's more, they gladly forgo money in order to discriminate against workers and customers on the basis of irrelevant attributes. John Hood shows how charge number one cancels out charge number two.

Leave it to government to get even old adages wrong. George Leef considers the case of preventions and cures.

Feminism is nearly monopolized today by women who want to use government to build a society according to their vision of justice and equality. It wasn't always so. Wendy McElroy honors the nineteenth century's forgotten classical-liberal feminists.

Our columnists this month once again find topics to delight liberty lovers and vex the statists. Doug Bandow examines ways to solve the problem of underage drinking. Dwight Lee explains how we grow richer, thanks to that form of cooperation known as the division of labor. Mark Skousen reports on the publication of a fancy new edition of *The Communist Manifesto*. And Charles Baird discusses new evidence that even union workers are harmed by strikes.

Our reviewers have perused worthwhile books on race, the common law and the environment, property rights, civility, economist Jean-Baptiste Say, and on how children learn—and don't learn—to read.

And now for something new. Turn the page for the debut of "It Just Ain't So!"—a lively feature that exposes flaws and fallacies of popular economic journalism.

—SHELDON RICHMAN

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THE FREEMAN
Ideas On Liberty

It Just Ain't So!

We should have an annual awards event called the "Economic Bloopers Bash." Straight-thinking economists and others could be entertained by dramatic renderings of allegedly serious articles, official documents, and broadcasts issued during the previous twelve months. The uproar from the audience would be deafening! Not only is economic asininity abundant, but much of it is so rich in misunderstanding that it serves as excellent intellectual slapstick.

As with most awards ceremonies, the Economics Bloopers Bash would feature different categories of awards—for example, the award for "Silliest Government Regulation"; the award for "Wackiest Editorial by a Major Newspaper"; and the "Bobbing Anchor Prize," awarded to the network news host who utters the year's stupidest on-air line. Competition would be stiff, but dedicated judges would settle on winners in each category.

Alas, economists are busy people—too busy to attend such an awards ceremony. So, instead, *The Freeman* will occasionally feature a critical analysis of a recent piece of popular economic writing. Our aim is not to criticize for the sake of criticizing. Rather, by exposing the flaws that mar much of what passes today for economic journalism, we hope to inspire in readers a more critical stance toward what is advanced as economic information by newspapers, magazines, television, and radio.

Our inaugural column examines Jonathan Schlefer's bizarre essay "Today's Most Mischievous Misquotation," appearing in the March 1998 issue of *The Atlantic Monthly.* In less than three pages, Schlefer, former editor of *Technology Review*, argues (among other wrongheaded things) that (1) Adam Smith was no great friend of free trade; (2) Smith believed that the interests of business people generally conflict with those of the public; (3) Smith would have opposed privatization of government services; and (4) free trade and colonialism are largely identical.

If Schlefer's portrayal of Smith as a mixed-economy enthusiast were accurate, it would indeed be a colossal blow to the cause of free markets. After all, discovering that Adam Smith was really nothing more than the Richard Gephardt of eighteenth-century Scotland would surely spawn malignant doubts about the entire edifice of classical-liberal scholarship.

Fortunately, Schlefer's Smith is a phantasm.

Let's examine each of Schlefer's contentions in turn. First, he claimed that Adam Smith really was no great free trader. Schlefer's evidence for this astonishing claim is that Smith's famous mention of the invisible hand occurs in a passage from *The Wealth of Nations* which argues that among the benefits is that (in Schlefer's words) "entrepreneurs . . . invest at home rather than abroad."

Smith does indeed argue that, all other things equal, entrepreneurs will tend to invest at home. Investors prefer to keep personal tabs on how their investments are employed. And investments close to home can more easily be monitored than can investments made in faraway lands. Smith also said that domestic investments *directly* create more employment at home than do investments in foreign countries. He reasoned that profits from domestic investment are more quickly realized than are profits from investments made abroad. Therefore, to the extent that the reinvestment of profits creates jobs, they will be created quicker from investment at home.

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But as a Generation-Xer would snidely ask, "Soooooooo?"

Nothing that Smith said qualified his endorsement of free trade. Free trade has long been accused of "shipping jobs abroad." Smith took pains to show that this accusation is false. But he also argued that profitable investment opportunities at home will not remain unexploited.

Therefore, Schlefer's assertion that Smith praised the invisible hand *only* insofar as it promoted domestic investment is mistaken. It is no less ludicrous than inferring from Milton Friedman's claim that the free market would supply good postal service that Friedman supports the free market *only* insofar as it supplies good postal service.

Schlefer is wrong also to claim that Smith believed that the interests of "large capitalists" and of the public are generally in conflict. Where Schlefer gets this notion is anybody's guess.

Perhaps Schlefer assumes that Smith's opposition to government-sponsored monopolies means that Smith saw capitalists as the natural enemy of the public. If this is the source of Schlefer's take on Smith, then Schlefer should consult a dictionary on the difference between "competition" and "monopoly." Smith knew the difference; his 1776 book is a long treatise explaining why the wealth of nations is increased by capitalists unaided by government-granted privileges and decreased by capitalists protected by such privileges. Here's a selection from Smith on the subject:

> Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.

We leave it for the reader to determine whether Smith saw the interests of capitalists, large or small, as being necessarily at odds with those of the public.

Another peculiar inference drawn by Schlefer from Smith's opposition to government-protected monopolies is that Smith would oppose privatization! Smith did indeed detest government-protected monopolies such as the Dutch East India Company—but he detested them not because they were private companies but because they were monopolies. Schlefer's persistence in equating "capitalist" with "monopolist" prevents him from understanding not only Smith, but economics in general.

Schlefer's misunderstandings extend far beyond misreading Adam Smith's text. Consider what Schlefer says in response to Smith's opposition to colonial wars waged "for the purpose of raising up a nation of customers." Schlefer says, "He raised a point that we might at least consider: is our globalization just a new mercantilism?"

By what logic is expanded free trade equivalent to mercantilism in general or to colonial wars in particular? Mercantilism's essence is the threat by government to restrain its citizens (with violence, if necessary) from dealing voluntarily with foreigners on terms disapproved by the government. In short, mercantilism is founded on government force.

In contrast, globalization results when people are free to trade peacefully with residents of other countries. Global free trade is founded on peace. With free trade, firms certainly do try to win foreign customers—but they do so only by offering attractive products at attractive prices. To equate this peaceful and productive means of gaining customers with mercantilism's reliance on warships and armies is to display a breathtaking inability to make distinctions. Global free trade has no more in common with mercantilism than the Waldorf-Astoria Hotel has with a Soviet gulag. People eat and sleep in both, but would Schlefer find accommodations in one comparable to accommodations in the other?

To nearly everything Jonathan Schlefer writes in his March 1998 piece in *The Atlantic Monthly*, we say "It just ain't so!" □

—Donald J. Boudreaux

(Jonathan Schlefer's article can be found on the World Wide Web at www.theatlantic.com/issues/98mar/misquote.htm.)

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THE FREEMAN
Ideas On Liberty

Technology and Happiness

by Allan Levite

While surfing the Internet one day, I chanced upon an article by Jay Hanson, titled "The Woes of Modern Society."[1] In most respects it was standard environmentalist fare, bemoaning modern technology and the harm it has allegedly done to the earth and to humanity. Other writers have already dealt at length with the exaggerations and misstatements of the "green" movement,[2] but Hanson has touched on a more philosophic issue that I want to address specifically—namely, the relationship between technology, affluence, and human happiness.

Technology and consumerism, he declares, have not brought greater happiness to humanity, as most people had previously believed they would. "Instead of richer and happier," he claims, "we see that traditional economic development has actually made us poorer and un-happier. Indeed, history has shown us (very forcefully) that the pursuit of traditional economic development is actually the pursuit of un-happiness."

An Old Story

Today's green movement, in some respects, is a new force in political philosophy. But before we begin to think that Hanson's anti-materialistic diatribe constitutes a new argument, we should stop to consider that few ideas have been more often encountered in literature than the notion that acquiring material possessions results in waste, greed, envy, and violence. Boredom with affluence, or the actual rejection of it, did not even begin with the hippie movement of the mid-1960s. Literary attacks on "luxury" incessantly appeared during the increasingly affluent late 1700s, coming from such well-known writers as Smollett, Pope, Swift, Rousseau, and Bolingbroke.[3]

To this day, it is difficult to enter a bookstore without seeing yet another book from a major publisher that presents similar arguments all over again, to the accompaniment of pomp and fanfare. In 1993 alone, not counting the anti-growth primers by environmentalists, three books from major publishers trumpeted the same set of assumptions—that competition and the pursuit of material goods are destructive, and that mankind's urge to consume is wasteful, vulgar, and self-defeating: *Land of Desire* by William Leach, *Fool's Gold* by Andrew Schmookler, and *Punished by Rewards* by Alfie Kohn. The year 1994 checked in with *A Nation of Salesmen: The Tyranny of the Market and the Subversion of Culture* by Earl Shorris. Going back to 1989 we find *The Hunger for More: Searching for Values in An Age of Greed* by Lawrence Shames and *The Poverty of Affluence* by Paul Wachtel—which, however, was issued by a minor publisher.

One thing to bear in mind is that the anti-materialistic theme seems to be the national

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anthem of writers, intellectuals, and debonair socialites, which suggests that the social guilt so typically experienced by these all-too-comfortable individuals is not unrelated to the philosophy itself. We rarely hear complaints about "excess consumption" coming from those who cannot afford luxuries, but rather from those who are jaded by them. George Lichtheim, in his not unsympathetic history of socialism, made a similar observation, but more bluntly, when he wrote that there is no need to waste time on the demand that the consumer society be abolished. "This kind of talk," according to Lichtheim, "commonly issues from people who do not have to work for a living."[4]

Contentment's Table of Contents

To bolster his argument that technological development and increased production have not increased the happiness of mankind as a whole, Hanson cites regular surveys by the University of Chicago's National Opinion Research Center, which have indicated that the number of Americans who claim to be "very happy" (around a third of the population) is no greater now than it was in 1957, despite the fact that the gross national product and personal consumption expenditures per capita have nearly doubled since then.

But Hanson has responded to the wrong question with the wrong answer. First of all, it is fairly impressive that an entire third of the population considers itself not merely happy, but "very" happy, and perhaps this indicator has not increased because it is already as high as it can go. As he pointed out himself, the main determinants of happiness are unrelated to consumption, consisting of such things as satisfaction with family life (especially marriage), satisfaction with work, and leisure to develop talents and friendships. This hardly constitutes an argument that industrialism and affluence do not guarantee happiness, because happiness is such a subjective, personal, and fragile condition that any number of things can jeopardize it, and *nothing* can possibly guarantee it.

Hanson's problem is that he confuses *satisfaction,* which results from *specific* acts or situations, with overall, *general* contentment. His argument against technological development along these lines is comparable to saying that baseball fans will never be truly happy unless their team wins the World Series every year. In a sense that might be true, at least for the most rabid partisans of their respective teams, but it hardly proves that the fans do not enjoy going to the stadium to watch games being played, or that this pastime is unimportant to them.

In claiming that technology and affluence do not prevent unhappiness, Hanson might just as well have said that if a person lives long enough, he or she will almost certainly experience the death of both parents, perhaps some other relatives as well, and perhaps even some close friends. Whether we speak of this occurring during the Dark Ages or today, such personal tragedies produce grief and unhappiness, so happiness will always be something that has definite limits. No matter what state current technology has reached, the transitory existence of happiness is likely to be interrupted by episodes of grief and loss. (Thomas Jefferson was astute enough, when writing the Declaration of Independence, to speak of the *pursuit* of happiness, not its attainment, which he realized was rare and fleeting.)

Therefore, Hanson would be right if he claimed that material possessions cannot substitute for family pleasures, and that riches cannot compensate for the loss of loved ones. But this is not their purpose. Technology does not exist to affect human happiness in the *overall* sense, but to increase *specific satisfactions.* Satisfaction and happiness are not the same thing, nor does one necessarily follow from the other. Technology may or may not increase overall happiness, but it can make specific tasks easier so that individuals can do more, make more things, and—yes—have more things.

To Do Is Better than to Make Do

Since Hanson's article appeared on the Internet, it is safe to assume that he composed it on a computer equipped with word-process-

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ing software. Using the technology of thirty years ago, he would have had to write it on a typewriter. Since writers tend to make corrections to their work (the real secret of good writing is *rewriting),* this would have taken much longer, robbing him of leisure time. Using the technology of Jefferson's era, Hanson would have had to write with a quill pen and an inkpot, robbing himself of even more leisure time—which, as he points out, is one of the main components of happiness. This is not to say that he is a hypocrite, but only to point out that his anti-technological perspective blinds him from seeing how beneficial technology has been, even to him, and how it has enabled him to increase his satisfaction.

Even so, we cannot say that being able to write articles more quickly and more easily would make a major contribution to a writer's overall happiness. As Hanson himself pointed out, our sense of contentment and satisfaction is not a mere function of what we achieve; it depends on our frame of reference—on how "what we attain compares to what we expected." Indeed, every age has its own expectations, and there were certainly happy people during the pre-technological Dark Ages (such as Robin Hood and his "Merry Men"), just as there are today.

Friar Tuck and Will Scarlet would not be unhappy simply because they did not possess radios, televisions, or sports cars. They had no conception of such things. Moreover, their band of outlaws provided them with a network of close friends on whom they could depend for good humor, camaraderie, and moral support. But just because they were capable of happiness without such modern conveniences, it does not mean that they would have rejected them if they had learned of their existence; nor does it mean that they would derive no satisfaction from these devices had they had them. If Robin Hood could warn Little John of the Sheriff of Nottingham's approach by radio or telephone, it could result in saving the lives of many of his Merry Men. It would be hard to imagine him thinking that such a device was anything but a great boon. And if his men had been equipped with motorcycles instead of horses. . . .

To Live Is to Achieve

Hanson has implied that mankind could be content with less technology than it now possesses and less production than it now generates. But man is an inquisitive and striving animal, who thrives on challenge. Hanson says that we could be satisfied with lesser abundance if we lowered our expectations. But the very fact that people *have* expectations means there will always be something that a person wants but does not have, or that some kind of dissatisfaction will exist because we can *never*, in any age, attain all we might expect or hope to attain. Without this perpetual (and perfectly normal) dissatisfaction with the present state of affairs, there would have been no reason for technology to have developed. That's the key element Hanson has missed. When there is dissatisfaction or an unfulfilled need, entrepreneurs appear. Their usefulness lies in their ability to innovate and to offer solutions that people are willing to buy because these solutions increase specific satisfactions or reduce some specific dissatisfactions.

Iron is too brittle, so steel was invented. Horses are slow and litter the streets with disease-generating droppings, so steam and then gasoline engines were invented. Telegraphed messages gave way to telephone calls. Index-card files are cumbersome, so computers were invented. Thus, the fact that the percentage of Americans who claim to be very happy is no larger now than it was decades ago is not a valid argument against technology and material abundance, which exist to meet specific needs, not to produce general happiness. One question that the polltakers mentioned by Hanson apparently did *not* ask, but perhaps should have asked (at least, for Hanson's own enlightenment) is: "Would you be happier or sadder if you had to live *without* modern conveniences?"

Technology and Leisure

Since Hanson was careful to point out that satisfaction with family life (especially marriage) is a key component of happiness, those of us who support technological growth

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should also be careful to point out the beneficial role that technology has played in preserving this happiness. Before modern technology arrived, a woman would typically have eight or ten children, for two reasons: first, so that two or three of them, with luck, would actually survive past childhood; second, because no effective birth-control method existed. Progress in medicine and disease-prevention—made possible by technological advancements—changed all this. Technology also made mom's life easier by producing dishwashers, vacuum cleaners, clothes washers and dryers, microwave ovens, and many other household gadgets. If these things did not necessarily ensure her happiness, they at least did not make her any sadder. In fact, since Hanson clearly states that leisure time is a prime component of happiness, we can assume that by his own definition, such labor-saving devices *must* have made mom happier.

Similarly, the unhappiness a husband would experience from watching his wife die in childbirth is a less-frequent occurrence now because of technological and medical advances. The same can be said for the death of a parent, which is now delayed by many years due to the same scientific attainments. Perhaps losing relatives to fire is even more terrifying and grief-generating than losing them to natural causes. Before technology gave us electric lighting, house fires were a constant danger because at first interiors were lit with candles and then by oil or kerosene lamps, which were always fire hazards. History books do *not* tell us that half of Chicago was burned to a crisp in 1871, with great loss of life, because Mrs. O'Leary's cow kicked an *electric light bulb* out of its socket.

Discovery Is Destiny

Hanson is probably aware of such facts, but his perspective drives him to reject production and technology because happiness, he claims, does not consist of "having." But he should ask himself if any happiness is derived from *knowing,* or if ignorance is bliss instead. The human species is a curious one, always asking questions, wondering "why," and speculating about the unknown. Consequently, science developed and made slow progress, and from it grew the technology that Hanson so deplores. Do not scientists, inventors, and philosophers obtain happiness from gaining knowledge and making discoveries? Are not others made happier when they hear that this has occurred, and that mankind's knowledge and understanding of the universe have been increased? Certainly this is so. We will probably never understand the universe completely, but each step in that direction is a triumph that all can share. It may not make a sad person happy, but mankind does not pursue knowledge to make sad people happy. The pursuit of knowledge is *itself* a source of satisfaction, if not of happiness, and that is sufficient.

Hanson's chief error is to ascribe to technology and affluence an exclusive moral responsibility for producing general happiness that they simply do not bear. To draw a parallel, suppose a cultural Philistine had examined the same opinion polls that Hanson had seen, and concluded that even though the world possesses many more books and works of art now than it did fifty or a hundred years ago, people are neither more happy nor more aesthetically advanced now than they were then. So it must have been art and literature that have failed us! Should this inspire us to say that writers, playwrights, and artists should restrict their output?

Hanson should restrict his efforts to cultivating his *own* happiness, and stop trying to decide—based on mere circumstantial evidence—what makes others happy. As implied by the old adage, "What is one man's meat is another man's poison," this is for each individual to decide. □

1. Web address: http://www.livelinks.com/sumeria/politics/enviro.html. (Accessed March 6, 1998.)

2. I particularly recommend *Eco-Sanity* by Joseph L. Bast, et al. (Lanham, Md.: Madison Books, 1994); *Environmental Overkill: Whatever Happened to Common Sense?* by Dixy Lee Ray (New York: Harper Perennial, 1993); *Green Delusions* by Martin W. Lewis (Durham, N.C.: Duke University Press, 1992); *No Turning Back* by Wallace Kaufman (New York: Basic Books, 1994); and *Science Under Siege* by Michael Fumento (New York: William Morrow & Co., Inc., 1993).

3. Albert O. Hirschman, *Shifting Involvements* (Princeton, N.J.: Princeton University Press, 1982), pp. 50–53.

4. George Lichtheim, *A Short History of Socialism* (New York: Praeger Publishers, 1970), p. 327.

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How to Get Action

by Leonard E. Read

"I want less talk and more action." Thus speak Americans when they suddenly awaken to the fact that their liberties are endangered. Talk, they say, is useless; only action counts. But perhaps talk and action aren't necessarily opposites. What if studying, talking, writing, and explaining should turn out to be the only worthwhile action there is? What then?

There are only two types of action: physical and intellectual. Do those who would save liberty advocate physical action? If so, how? To use physical force against others, except defensively, is to destroy the liberty of others which, by definition, is not liberty. To adopt this tactic—to employ physical force against others in any form or degree, except in self-defense—would be merely to substitute a new form of compulsion for the existing forms of compulsion, trading violence for violence—revolution! At best, it is the court of last resort and is not, really, what most persons have in mind when they insist they want action. Most of them mean only that they want "something done," and quickly! They want to fight peacefully. The thought of using fists or guns never as much as enters their heads; they reject physical action, in their calculations, by not even contemplating it. Thus, according to their own thesis, nothing logically remains but intellectual action.

The Mania for Organizing

How, then, does one fight for liberty intellectually? The best thing to do even in an intellectual fight for liberty, many think, is to organize—which is a form of action. Usually they think in terms of organizing someone else to do something instead of organizing their own time and energies. This damaging tactic is employed as though organizing had the power, somehow, to absolve individuals from doing any more than joining some organization. This mania for organizing is usually little more than an effort, doubtless unwitting, to transfer responsibility from oneself to some other person or persons whose competence is often unknown.

Responsibility and authority always go hand in hand. Thus, if this process of organizing succeeds, authority over one's own actions is lost precisely in the degree that responsibility is shifted to someone else. The citizen who "wants action," and resorts to this type of tactic, ends up further from his goal than ever. In fact, organizing, more often than not, is merely an attempt to "pass the buck." Yet, oddly enough, the mere act seems to have the strange power of conferring a sense of accomplishment on the ones who organize.

Leonard E. Read established FEE in 1946 and served as its president until his death in 1983. This article is excerpted from Essays on Liberty, Vol. III (1958), *pp. 102–109. It is the eighth in a monthly series commemorating the 100th anniversary of Mr. Read's birth.*

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Organization, though much used, seems to be little understood. In the field of extending individual liberty, organization has strictly limited, technical possibilities. Unless these limitations are scrupulously observed, organization will inflict on liberty more harm than good; thwart, not abet, the spread of understanding. Sobering is the thought that if there were no organization, there could be no socialism! . . .

For Voluntary Cooperation

Organizations can, however, serve a highly useful purpose in developing and spreading an understanding of liberty if organization is confined to its proper sphere. For the purpose of advancing liberty, which depends solely on the advancement of individual understanding, the only usefulness of organization would seem to be to accommodate and to make easier the joint contribution to, participation in, and ownership of the physical assets that will aid in the process. These physical assets may include typewriters, buildings, specialized libraries, printing presses, telephones, and the many other tools helpful to individuals who are attempting to extend their understanding of liberty. These physical accommodations can enable searchers for truth to exchange and disseminate ideas and knowledge more effectively. They can be used to secure the advantages which derive from specialization or division of labor. Organization, limited to this form of voluntary cooperation, is a useful and efficient means for achieving these desirable ends.

Organization, however, like government, if extended beyond its proper sphere, becomes positively harmful to the original purpose. This fact constitutes the need for much careful thought on organizational limitation. Just as government becomes dangerous when its coercive, restrictive, and destructive powers are extended into the creative areas, so do voluntary organizations pervert and destroy the benefits of intellect when the capacity to merge is carried to the point of subjecting individual judgments to the will of the majority or group. Truth, as each person sees it, is the best that the mind of man has to offer. Its distortion, inevitable when achieving a collective chorus, does injury to understanding.

Try Self-Improvement

If organization is not the best way to secure liberty, then what is? My answer—self-improvement—is the essence of simplicity. The reasons which lie behind the answer, however, are not so simple.

The inclination to escape personal responsibility—plus the belief that somehow intellectual miracles can be wrought by us on someone else—is too pervasive for easy rejection. Unless we fully understand that these inclinations and beliefs are wholly without merit, we will continue to indulge in them. I wish to make the argument that self-improvement is the only practical course to liberty.

Is there one book or one article written by anyone at any time that can be designated as the final word on liberty? Perhaps the best that can be said is that the finest minds of all time have been in pursuit of its understanding and that now and then a tiny ray of new light has been thrown on what theretofore was darkness and lack of understanding. These few most advanced searchers have been among the first to say, "The more exploration I do, the more I find there is to learn."

The reason for this difficulty in understanding liberty is that liberty, like truth, is an object of infinite pursuit, a quest without end, ever! The understanding of liberty requires intellectual ventures into the areas of the unknown or, more likely, into the areas that have become unknown or that majorities have declared taboo. Have you not noticed the vigor we employ when a present liberty is threatened and then, when it is lost, how soon we refer to it as a "social gain"? How can one who has been thus trapped, or who himself has lapsed into thinking of a new restraint as a "social gain," possibly identify the liberties he has lost?

Every individual ought to realize that he has not mastered the subject of liberty until he thoroughly understands, and can competently explain, this idea: With government properly

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limited to its legitimate functions of defense, our problems of interdependence can be resolved through voluntary effort, and only through voluntary effort. If that is a correct appraisal, then most persons are inexpert in their understanding of this subject.

In brief, not a single person among us is justified in regarding himself other than as a student of liberty. No know-it-all exists or ever will.

In searching for a student of liberty, the search must be within oneself. In the world of persons, it is only within each of us that the fertile, explorable areas exist. The best explorer of oneself is oneself. It is not possible to impart to others that which we do not possess. And even after we have made some progress in understanding, the most we can do for others is to make known to them a willingness to share what we have discovered by our own thinking, or what we find edifying from recorded thinking. Whether or not what we offer is, in fact, shared, is beyond our power; and we should realize this.

It is conceded that the student attitude, this search within ourselves, may at times appear unrewarding. But if the understanding of liberty is to be advanced, the attempt must be persisted in, regardless of its seeming extravagance in time and effort.

Along this line, a fictional statement ascribed to Christ is heartening if one will think of him in the symbolic terms of truth and infinite goodness, and of our own weakness and inabilities as weeds and brambles; and of our own rare virtues and abilities as fertile ground:

> Presently the Master appeared on the steps of the Synagogue and began to speak. It was immediately obvious that he had been aware of the rudeness of the crowd—and deplored it. He had been appointed, he said, to offer a way of salvation to the world; and that meant everybody. In a task so great as this, no prudent thought could be taken about the cost of it or the waste of it. His mission, he said, was to sow the seed of good will among men in the hope of an eventual harvest of peace. Much of this seed would be squandered. Some of it would fall among weeds and brambles where it would have no chance at all to grow, but the sower could not pause or look back to lament this extravagance. Some of the seed would fall upon stony ground where there was very little soil to nourish it and the tender plants would soon wither and die; but the sower must not be dismayed. Some of the life-giving grain would grow! Some of it would find friendly lodging in fertile ground![1]

The Only Practical Action

Action? The casual thinker might imagine that the best course is to try to tell others what to do and how to think. But reason supplies a contrary answer. It suggests that pursuit of one's own personal understanding is the only practical action for one to take. If a person advances his own understanding of the true and the false, the understanding thus acquired will be sought by others. Reason recommends that a person get the horse before the cart; that first one must learn; that influencing others will take care of itself. Reason says that influence in the creative areas can have no effectiveness prior to learning; that learning has no end.

Some persons will assert that the conclusions herein set forth are self-evident, but will argue that this suggested student approach—this process of self-improvement—is too slow to meet the challenge of these times.

I am in no position to deny this. But, in my opinion, there is no shortcut. The only way to truth—that is, to understanding—is through one's own person. When we gain an appreciation of this simple fact, we will be on our way to as little violence against persons, and thus to as much liberty among persons, as is within our power to bring about.

Action? For authoritarians it is physical force. For libertarians it is first understanding and then explanation—the latter being "talk," either verbal or written. □

1. Lloyd C. Douglas, *The Big Fisherman*, Houghton Mifflin, 1948, p. 377.

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THE FREEMAN
Ideas On Liberty

How Environmentalism Disdains the Poor

by E. Calvin Beisner

The late Julian Simon and other wise thinkers have long understood that economic development is necessary to enable people to afford a safe environment. That insight fits in with my own observations when, several years ago, I attended the Oxford Conference on Christian Faith and Economics at Agra, India—city of the beautiful Taj Mahal. Like many other participants, I was struck by many things: hard-working, friendly, often generous people, each striving to improve life for himself and his family; thousands of charming little children working right alongside their elders in the shops, cottage industries, factories, and streets; beautiful handwoven rugs, tapestries, and clothes; exquisite handmade pottery, some of it produced with the same mosaic techniques that mark the Taj Mahal itself. All of these, and many others, I saw as signs of a society brimming with enterprise. Hopeful signs.

But in the very same place I saw other signs, the signs of poverty.

Most of the generous people working diligently in the shops and factories, pedaling the rickshaws, or eagerly selling their handmade wares were clearly poor, devastatingly poor. In 1994, India's gross national product per capita was only about a tenth of Latin America's average, and less than one-eightieth that of the United States; its under-five mortality rate was more than twice Latin America's and almost ten times the United States'; and its average life expectancy at birth was 12 percent lower than Latin America's and 20 percent lower than our country's.

With the Indians' poverty came the visible signs so familiar to anyone who spends time among the poor. Their clothing usually was ill fitting, heavily worn, often repeatedly mended, and more often in need of mending. Despite their honest efforts, the poor Indians usually were not very clean. The tools of their trade were old and inefficient. It was clear that many, even most of them, lived on the streets, the better off among them in little makeshift huts of discarded scrap metal or wood. Almost all looked prematurely aged, their teeth and hands joined by their wrinkled faces in quiet testimony to a hard life.

As I gazed on the little children scrabbling desperately for a living, I experienced what so many Westerners experience: that longing to take one home—no, to take lots of them home with me, to give them a better life. It is just what some of those children, the orphans, needed. As for those whose parents were living, most, if given the opportunity to trade their poverty with their beloved families for wealth among strangers, would certainly choose their families—and rightly so, for what shall it profit a man if he gain the whole world but lose his own soul?

Calvin Beisner is associate professor of interdisciplinary studies at Covenant College in Lookout Mountain, Georgia, and author of Where Garden Meets Wilderness: Evangelical Entry into the Environmental Debate *(Eerdmans, 1997).*

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An Impoverished Environment

One sign of the poverty of these people, one that almost every Western environmentalist would completely misunderstand, is the lamentable state of their environment. To call it polluted, for someone accustomed to life in the West, would be the grossest understatement. Indeed, among people gathered for that conference, including Christian missionaries from all over the world, one of the most common observations was that this was the filthiest place we had ever witnessed.

Most environmentalists blindly accept Paul Ehrlich's formula that negative environmental impact varies directly in proportion to population, affluence, and technology (I = PAT). But in fact, the wretched environment of Agra, like that of almost all India, is directly rooted in the *lack* of advanced technologies and wealth.

Indians do not burn dried dung and scrap wood as their chief sources of heat and cooking fuel because they like those better than natural gas and electricity. They do so because their society is too poor to provide the infrastructure without which natural gas and electricity cannot be made available, and the people would be too poor to pay for them—or the furnaces and stoves that would use them—even if they were available. They don't like breathing air filled with the smoke of burning dung, and they would gladly trade that for the smog of moderately advanced industrialized cities if they could afford it—let alone for the clean air of most of the high-income cities of Western Europe, North America, Australia, and Japan, where smog levels have been falling for most of the last three decades.

But that is just the problem. They can't afford the cleaner environment because they can't afford the technologies that enable people to have a clean environment. And so they, along with hundreds of millions of other poor people in poor countries the world over, suffer the environmental costs of poverty: indoor air pollution from the coarsest biomass fuels, causing respiratory diseases that take millions of lives annually; untreated or minimally treated sewage contaminating surface and subsurface drinking water sources, again taking millions of lives annually; and low-efficiency car and truck engines burning high-lead and high-sulphur fuel, adding to air pollution.

As their economies grow, through continued hard work, learning, and capital investment, those sources of pollution that cost the most in human health and life will diminish. But it will take time, and it won't be easy.

Now, how do Western environmentalist leaders respond to these tragedies?

- By insisting, with Vice President Al Gore, that fighting global warming—even the reality of which, let alone the extent and impact, is open to serious debate among climatologists—should be the central organizing principle of human civilization. Although they know that energy use drives economic growth, which replaces poverty with affluence, they insist that fossil fuels be strictly limited.
- By insisting that chlorofluorocarbons, the cheapest and least corrosive of refrigerants, be banned to protect the stratospheric ozone layer from a depletion that remains largely theoretical and that cannot be heavily influenced by the human sources of the ozone-destroying chlorine monoxide, which are dwarfed by nature's sources. They do so even though they know that the ban will delay the time when poor people in poor countries can afford the refrigeration they so desperately need to minimize food spoilage and the malnutrition and food poisoning associated with it.
- And by putting greater emphasis on saving theoretically endangered species before hundreds of millions of people endangered by malnutrition and disease—despite the fact that the International Union for the Conservation of Nature, in a worldwide field survey looking for evidence of rapid species extinctions, could find none.

Wealthier Is Healthier

The irony is that Western environmentalist leaders are cutting off the branch on which they sit. Environmentalism is distinctly a preoccupation of the wealthy. Environmental protection increases precisely to the extent

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that a society becomes wealthy enough to afford it. To the extent they succeed in slowing economic growth anywhere in the world—in rich and poor nations alike—they delay the progress of environmental protection. And while they're at it, they generate a very understandable resentment among the poor of this world, who see these environmentalist leaders as blocking efforts to keep their children from dying or suffering serious, lifelong respiratory ailments. As they alienate the poor, environmentalists also create a mistrust that will delay the time when the poor, ascending out of their poverty—as they surely will—become willing to allocate significant parts of their newfound wealth to environmental protection.

Real friends of the environment recognize that growing economies are the environment's best friends. As economist Indur M. Goklany points out: "The level of affluence at which a pollutant level peaks (or environmental transition occurs) varies. A World Bank analysis concluded that urban [airborne particulate matter] and [sulfur dioxide] concentrations peaked at per capita incomes of $3,280 and $3,670, respectively. Fecal coliform [bacteria] in river water increased with affluence until income reached $1,375 per capita."

After these peaks, pollutant levels fall off rapidly as wealth continues to increase. This means that real friends of the environment are also real friends of the poor—unlike those who mistakenly believe that economic growth threatens the environment—for they will promote the economic growth that will not only improve the health, life expectancy, and material living standards of the poor but also lead to the cleaner, safer, more sustainable environment they seek. □

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THE FREEMAN
Ideas On Liberty

It's a Jungle Out There! What We Can Learn from the Privatization of Zoos

by Keith Wade

A chorus of voices joins in pleading with the government to get out of businesses that can be better run by private industry. Yet there continues to be reluctance and skepticism.

This reluctance is not just from those whose cushy jobs are at stake. Many people are legitimately concerned about private industry's willingness and ability to take over government functions. Those who concede that private industry can do an adequate job argue that it will not want the "unprofitable sectors," leaving municipalities with an array of costly services to provide without the offsetting benefits of the more profitable services. By looking at the privatization of zoos, however, we see that these concerns are just not valid.

Says one prominent zoo professional: "Politicians may adamantly oppose the privatization purely on the grounds of losing 'control' over the facility. This may occur even though your governmental entity recognizes that they can no longer afford to adequately fund the facility."[1]

Many cities actually try hard to do a good job running zoos. They invest lots of money in their facilities and may even try to hire the right people. The problem, however, is that a zoo is different from other city departments. With a diverse, living inventory, a need for staff with unique characteristics, and continuous contact with the general public, a zoo creates challenges that most city bureaucracies are not equipped to handle. Unless one has the proper academic credentials, for example, one does not get to bid on the post of veterinarian regardless of seniority; delays in purchasing make multi-ton beasts hungry; and one does not simply requisition a Komodo dragon from the downtown warehouse should the old one disappear. Contrary to popular belief, many of the best zoos in the nation are run by private, not-for-profit institutions. Over the years, more and more municipalities have found their zoos too costly and too cumbersome to run.[2] Simply stated, zoos have special needs that private management is better able to handle, as we'll see by examining two of the recently privatized institutions, the National Aviary in Pittsburgh and the Pittsburgh Zoo. In both cases, private industry took over what was widely regarded as failing government projects and turned them around with private money.

The National Aviary in Pittsburgh

When the city of Pittsburgh faced a budget crunch, it made the decision to close its

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aviary. As Dayton Baker, executive director of the National Aviary wrote me, "Under city operation the Pittsburgh Aviary became a 'burden' when the 1970s and 1980s steel depression hit the city of steel. The city thought it could save $1 million annually by just closing the facility." A group of concerned citizens, Save the Aviary, Inc., organized to stop the closure. They did not ask the city to continue running it. They did not demand that taxes be raised or budgets cut elsewhere. Rather, they asked to be allowed to run the aviary. After a great deal of negotiation, the city agreed. Shortly after it became a private entity, the federal government designated the institution "The National Aviary in Pittsburgh" in recognition of its work in the area of conservation, but, unlike the National Zoo and other "national" entities, the designation carries no federal money with it.

As in the case of other recent privatizations, the new organization did not hire a city employee to run it. Rather, it hired someone with a vision. The director is forced to run the institution like a business: budgets must balance. Thanks to a dedicated staff (they have to be; they took drastic pay cuts to keep the aviary open and are only now back to industry-standard salaries), the National Aviary is making great strides.

New construction is underway—the first new capital improvements in 25 years. Exhibits that cannot be replaced right away have been spruced up. Local industry is being courted to help rebuild the facility. Local advertisers are generous enough to provide free billboards, newspaper space, and the like (not surprisingly, few felt the need to provide this sort of assistance when it was a city institution).

While the aviary is still in its formative years, the prognosis is good. Each year is a record year (the 1997 operational budget is the largest in the institution's 45-year history), special events are becoming more popular, the local media has been kind, a new regional base of support has been established, and local business has been receptive. Once so burdensome to the city that it was to be closed, the aviary provides yet another example of private enterprise successfully doing what a municipality could not. Before privatization, the institution received 83 percent of its support from tax dollars; today the share is 57 percent and shrinking, Baker said. He attributes the success thus far to "creative, workable, logical capitalism and business sense."

The Pittsburgh Zoo

Shortly after the National Aviary was privatized, the Pittsburgh Zoo was turned over to private ownership as well. Several years earlier, the city had hired a young veterinarian from South Carolina, Barbara Baker, to serve as zoo director, a drastic change from previous administrators. Her diagnosis was simple (albeit not universally well received): the city must relinquish control if the zoo was to prosper. Among other things, she observed to the astonishment of many that 38 people were involved in purchasing a banana (and, as a result, an employee sometimes drove to the local grocery store to purchase bananas while they were waiting for the "official" lot to be approved and delivered).

The city council meetings were heated, with members of the zookeeper's union expressing their opposition to Dr. Baker's plan. But the citizens group Save the Pittsburgh Zoo ultimately prevailed, and the Zoological Society of Pittsburgh ultimately won control, with Dr. Baker staying on as president and chief executive officer.

What has happened since? Massive expansion voluntarily paid for by the local community, and increased attendance, membership, spending, and private corporate contributions. And it now takes just one person to buy a banana.

Without having to directly compete with classrooms and jail cells for funding, the Pittsburgh Zoo has been able to revamp its infrastructure, expand its educational offerings, build a new children's zoo, and attract any number of local corporate partners.

Lessons to Be Learned

After privatization, both institutions started big expansion programs—resulting in a better

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time for the visitors and a better life for the animals. Even though enlarged, each institution costs the local community far less than before in direct government support. (Each institution initially got a stipend to help out until it could become entirely self-sufficient.) The employees—once city workers—have had to adjust to life in private industry but most have done so without incident. No massive firings took place. The public is generally unconcerned about the legal technicalities; they notice only improved facilities, friendly customer service, and a better animal collection. Educational programs continue and, in fact, have been increased at each institution.

What about admission prices? When forced to break even, the aviary had to evaluate its prices and eventually raised them slightly. (Its 1992 price was 50 cents, less than a cup of coffee and certainly less than the break-even price.) The zoo has not dramatically changed its prices since privatization. Prices cannot—as we are sometimes told they will—go "through the roof." Because the budget has to balance, they cannot rise above the market level. Given a choice (something that people did not have when these institutions were tax-funded), people will not pay more for a product or service than it is worth to them.

Most important for animal lovers, both institutions have secured their futures against city budget cuts. By its very nature, any municipality will have a number of entities competing for scarce resources. While new schoolbooks and a new rhinoceros might be equally important, the former is often an easier political sell. By being able to focus on doing only one thing well, private enterprise is able to ensure that funds are not diverted to some other program. Says aviary director Dayton Baker, "Privatization allows us to generate many more dollars for what we believe in as an organization—our mission—*conservation*, etc., and then allows us to tackle the enormous job of meeting the challenge. The city system has too many limits and controls and non-visionary thinking to allow such progress."

In addition, private enterprise is not burdened by political pressure on staffing. When the city is removed, there need not be any more concern about parity between a veterinarian's salary and a deputy sheriff's salary. Further, personnel—at least at the executive level—can be hired on the basis of merit rather than seniority.

Finally, private enterprise can tap the local community for support. Few of us are willing to support any municipal enterprise. First, most of us feel we provide enough support to municipalities by way of taxes. Second, there is always doubt about whether the money will really be used for its designated purpose; general funds tend to get large and unwieldy. Third, recognition for major donors is not available under a municipal system. Private enterprise avoids these problems and can thus raise money.

It's Not Just About Zoos

The moral here is simple: it can be done. Private enterprise can and will take over services that the government vacates. Unlike garbage collection or parcel delivery, the zoo industry isn't very profitable. Most facilities have massive structures that must be heated, cooled, and maintained; large payrolls of professionals and specialists; and increasing competition in an ever-tightening recreational market. Nevertheless, there are those who are willing to step in and take over from the government. As Dayton Baker put it, "It is more of a motivational thing—motivation to meet the bottom line always and to exceed expectations whenever possible—motivation to be the best at what we do—motivation to be able to command our own destiny and be able to take an organization as far as it will go in ways no city bureaucrat could possibly imagine." As we can see from the Pittsburgh Zoo and the National Aviary in Pittsburgh (and any number of other privately run zoological parks and aquaria), the government can successfully transfer its role to private enterprise. □

1. Barbara Baker (president and CEO, Pittsburgh Zoological Foundation and director of the Pittsburgh Zoo), 1994 Zoological Association Annual Conference Proceedings, p. 383.
2. Ibid.

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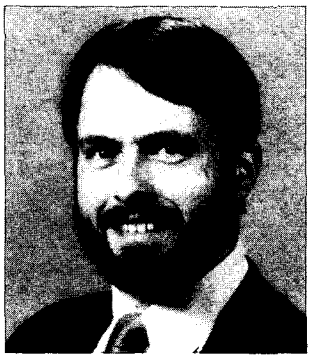

Outmoded Paternalism

Every month seems to bring another tragic death from binge drinking at a fraternity party. That has led to predictable cries for government action.

But tougher prohibition is no answer. It is illegal in every state for anyone under 21 to buy alcohol (and in most states to consume it). Unfortunately, observes New York University sociology professor David Hanson, "We have driven them [the students] off campus, so now we have no control over their drinking." Indeed, these tragic deaths show the problem of neo-prohibitionism: the greatest harm occurs from binge drinking, which is more likely to be reduced through family education than through legal sanction. And that kind of teaching would be more likely to occur if the drinking age was lower.

Threatened with the cut-off of federal transportation grants, every state has banned alcohol sales to 18-to-20-year-olds, people who are otherwise adults. Some states are targeting enforcement efforts against young adults. In Virginia, for instance, several alcohol-related deaths led the state attorney general to create a task force on campus drinking. Alcohol Beverage Control agents began raiding fraternity parties and other locations frequented by underage drinkers.

Some localities are also targeting adults under the age of 21 who drink. Beach communities like Key West have begun arresting kids who try to illegally snatch a drink. Last year Key West called its convict roadside sanitation crew the "spring break chain gang."

While such measures may help fill local coffers or clean local parks, they are not likely to reduce underage drinking. An incredible 84 percent of college students drink. Nearly half of them and a third of all high school seniors report that they binge drink. More than half the nation's tenth graders have used alcohol. There is no evidence that the shift in the drinking age has affected the drinking levels of young adults. As former Virginia State Attorney General Richard Cullen observed, "We're failing miserably right now."

A better strategy would be to teach young adults how to drink. Before leaving office Cullen urged consideration of lowering the drinking age to 18, in the hopes of keeping more students on campus. His successor, Mark Earley, observed that the state task force's goal was not "to prosecute and persecute students," but to "change the culture of binge drinking on campus." The best way to change that culture would be to relax the law.

As Professor Dwight Heath of Brown University sees it, "The choice is not between control and the absence of control. The important choice is between formal controls imposed from without, which restrict individual liberties and often trigger reactive asocial or anti-social patterns of behavior, and informal controls shared by other members of one's community and likely to be not only

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accepted but highly valued by most people." David Hanson makes much the same argument. Simply saying "don't drink" won't prevent experimentation. It is "much safer if you introduce them to drinking yourself."

In short, most adults will drink before they reach the age of 21, irrespective of the law. The objective, then, should be to encourage them to do so responsibly, not just when they are between the ages of 18 and 21, but for their entire lives.

That is most likely to occur by treating drinking as one of many rites of passage to adulthood. Instead of having to hold an illicit party, forge an ID, or cajole someone older to buy alcohol, those nearing adulthood could drink openly and in the company of other responsible users. In this way, lowering the drinking age, argues Elizabeth Whelan of the American Council on Science and Health, would help American teens "learn how to drink gradually, safely and in moderation."

This is the practice in most other nations. "In countries where people start to drink at an early age, alcohol is not a mystical, magical thing," says Heath. People are less likely to "drink to get drunk because they know that's a stupid thing to do." Only four other nations set the minimum drinking age at 21. Belgium, Britain, France, Italy, and Spain all allow 16-year-olds to drink. In some countries there is no age limit if children are drinking with their parents. Portugal has no minimum age at all—and the incidence of alcohol abuse is far lower there than in America.

A similar strategy is worth considering here. Tom Gerety, president of Amherst College, complains that while any teacher knows that his students are drinking before age 21, "none of us is in a position to stop them. And where we would teach moderation, we are forced to teach prohibition—a lesson that few will heed."

This educational process could be greatly facilitated by the family. Today kids tend to drink only with other kids. Hanson suggests permitting parents to serve alcohol to their children, even in restaurants, and to stress that *responsible* drinking, not mere drinking, is the surest sign of maturity. Family physician Patricia Roy counsels parents to allow their children to learn drinking at home: "Drinking is a social skill that must be taught, like table manners. Kids should learn how to drink responsibly under the guidance of someone who cares and won't let anything happen to them." A variant of this idea comes from Rod Park, chancellor of the University of Colorado (Boulder), who advocates "drinking permits" for college students who get parental consent and pass an alcohol-education test. He explains that "My understanding about how to make people responsible is to give them responsibility and hold them accountable."

An important aspect of alcohol education is learning the equivalencies of beer, wine, and liquor. A recent Health and Human Services survey found that nearly three-fourths of high school students didn't realize that a twelve-ounce can of beer had the same alcohol content as a five-ounce glass of wine or a shot of whiskey. One-third didn't know that wine coolers contained alcohol. Abandoning strict prohibition for young adults would make it easier to correct such misapprehensions.

We need a more relaxed approach, similar to that of New Zealand, where children may drink with their parents in specified places and where the Liquor Review Advisory Committee has called for even more liberalization. The simplest change here would be to eliminate the federal minimum-drinking age. There's no reason for Washington to set a national standard. States should declare independence from Washington and cut their minimum ages, even with the threatened loss of federal funds, and turn the socialization process over to parents.

America has a long and unpleasant history with various forms of prohibition. The family and community institutions are likely to do a far better job of teaching young adults how to drink responsibly. As Professor Dwight Heath puts it, "Drawing clear and realistic guidelines is the business of parents and society." □

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THE FREEMAN
Ideas On Liberty

Mafia Capitalism or Red Legacy?

by Gary Dempsey and Aaron Lukas

Russia is experiencing an organized crime epidemic. Its interior ministry says there are now more than 9,000 criminal organizations operating inside the country, employing nearly 100,000 people, or about the same number as the U.S. Internal Revenue Service. The Analytical Center for Social and Economic Policies, a government-sponsored think tank that reports directly to Russian President Boris Yeltsin, estimates that four of five Russian businesses pay protection money. They also report that more than eight thousand Russians have mysteriously vanished from their homes, which have become lucrative pieces of real estate since the collapse of communism.

American news accounts of Russia's organized crime epidemic, however, continue to erroneously suggest that criminal operations there are an "extreme form of capitalism." Journalist Adrian Kreye, for example, says Russia is experiencing a "mafia capitalism" that is based on "the dollar and the law of the fist," and Reuters reports that "threats and murders have become commonplace in the wild atmosphere of post-Soviet capitalism." More subtly, the *Washington Post* blurs the distinction between legitimate business and organized crime with talk of criminal "conglomerates" and "mergers."

Other observers hold that organized crime in Russia is simply an "early stage" of capitalism. "Today's corruption," writes Cornell University professor Michael Scammell, seems "characteristic of a period of profound change and upheaval, when Russian society is in the stage of the primitive accumulation of capital." And Stephen Handelman, author of *Comrade Criminal: The Theft of the Second Russian Revolution*, reports that many Russians believe "that a period of lawlessness is part of the price every society pays" for capitalist development.

But organized crime in Russia is neither a "form" nor a "stage" of capitalism. Instead, it is a direct legacy of years of all-pervasive bureaucratic control and an economy that was forced underground.

All-Pervasive Government

It was the presence of government control everywhere in Soviet life that provided the original opportunity for the institutionalization of widespread bribery and extortion. Indeed, Soviet bureaucrats could, and did, demand payment or favors for everything from drivers' licenses and consumer goods to medical care and higher education.

Moreover, bureaucratic corruption and favor-trading meant that there were no uniform laws to live by. Instead, Russians encountered rules and requirements that varied from bureaucrat to bureaucrat and government ministry to government ministry. The

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Organized crime in Russia is a direct legacy of years of all-pervasive bureaucratic control and an economy that was forced underground.

result was that the Soviet Union functioned, not under the rule of law, but under the arbitrary rule of bureaucrats.

Today, Russia is paying for its failure to establish the rule of law. Faced with rampant crime, many Russian businesses are forced to take matters into their own hands and hire private security agents and bodyguards. One security-service provider says Russian businesses have little choice but to recruit their own security forces. "They do not trust the state. If they relied on the state, then you wouldn't see them riding around Moscow in a convoy. I laugh when I see five businessmen; they usually have 25 bodyguards." Officially, there are now ten thousand private guard services registered in Russia, but experts say there may be as many as three times that number.

The lack of faith in the Russian government's ability to enforce the rule of law is not limited to the business world. In 1996 a jailed Russian mobster testified before a U.S. Senate subcommittee that Russian hockey players in the National Hockey League, including Alexei Zhitnick, were targeted by the Russian mob for extortion. The witness claimed that when Zhitnick was confronted with the mafia's demands he did not go to the Russian authorities. Instead, he "went to a more powerful criminal group to take care of the problem." According to Zhitnick: "The cops can't do anything. No rules. No laws." Many Russians share Zhitnick's bleak view of the Russian government's ability to enforce the rule of law.

Underground Markets

The underground markets that communism created are another source of Russia's organized-crime problem. Shortages of consumer and producer goods in the Soviet era provided the opportunity for additional income at all stages of commerce. Goods arriving at retail stores were often set aside for preferred customers who paid extra. Those who controlled the distribution of goods, housing, indeed almost everything, were often in a position to extract additional payments from consumers. "Illegal private economic activities," reports economist Gregory Grossman of the University of California at Berkeley, were "a major and extremely widespread phenomenon," and for a large part of the Russian population, "a regular, almost daily, experience."

It is no accident, then, that many members of today's criminal class are current or former government officials. The 1960s saw crime networks forged in Russia based on the ability of the criminal underground to provide Soviet officials with consumer goods and services unavailable under the communist regime. As Mikhail Gorbachev liberalized the economy in the early 1990s, Russian organized crime retained its links to government officials and many former police and intelligence agents joined the Russian mafia after the collapse of communism. Several recent books published inside Russia support this account. *Mafia: Unannounced Visit* by interior ministry official Vladimir Ovchinsky describes the intertwining of the corrupt state bureaucracy and the criminal underworld, especially during the last years of communist rule. In *Thieves in Law*, Georgy Podlesskikh and Andrei Tereshonok expose how organized crime and the Russian government are tied to each other. On the basis of internal KGB documents, they show that Soviet officials influenced and sometimes supervised organized criminal activities.

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Today, no level of government is immune from criminal infiltration. Take the case of Gregori Miroshnik. Imprisoned four times, he was widely considered to be a dangerous criminal. But in 1991 he somehow became the economic adviser to Russia's vice president. When asked where he found his advisers, the vice president said that he was too busy and couldn't check everyone's résumé.

As one frustrated former Moscow prosecutor summarizes Russia's organized-crime problem: "The main way the mafia penetrates into the economy is via the bureaucrats. They are our main enemy. The mafiosi are only the second enemy."

Criminal Catalyst

The Russian government's reluctance to give up further economic control is the single greatest catalyst to organized crime. Indeed, many Russian businesses turn to mafia groups to evade excessively high taxes and overly restrictive regulations. The growing scope and power of Russian organized crime is thus partly attributable to the continued existence of heavy government burdens on private economic activity. Reforming the tax regime and reducing the regulatory burden would be two of the most important steps the Russian government could take to bring its organized-crime epidemic under control.

The types of crime being committed in Russia also illustrates the need for further privatization and red-tape cutting. Indeed, most serious organized crime in Russia is not based on "traditional" forms of illegal activity, such as prostitution or stolen-car rings; it is instead intertwined with state-owned enterprises and resources. "It's [a] serious economic operation," writes Igor Baranovski, a reporter for *Moscow News*, "playing games on the exchange rate. Half-legal operations selling oil." Large-scale crime in Russia often means selling government resources that nobody really owns. Billions of dollars of government-controlled resources—everything from aluminum to gold to fishing rights—has been sold for illicit private gain.

Government ownership is not the only factor that leads to corruption: excessive bureaucratic interference with commercial activities turns otherwise legitimate businessmen into criminals. At both the federal and the local level, the Russian government levies a daunting array of license, permit, and fee requirements on normal business activity. Rather than dealing with those government-created obstacles, businesses often choose to avoid official red tape by paying less costly and more expeditious bribes. According to the director of a large Moscow bank, government officials who issue licenses and permits "practically have a price list hanging on the office wall." A recent study of neighboring Ukraine, a former Soviet-run state, found that small businesses in Kiev spent an average of $2,000 a year on such under-the-table payments, whereas official fees amounted to about $12,000. The mafia often plays the role of middleman in these situations, facilitating transactions between businessmen and corrupt government officials.

Burdensome customs procedures have also made Russia into a nation of smugglers. The *Washington Post* reported that a quarter to a third of Russia's foreign trade is now carried out by small-time importers who travel by every means imaginable. Those "shuttle traders" must routinely engage in extensive illegal activities. Quasi-legitimate shipping companies charge a fee for handling paperwork, customs negotiations, and dispensing bribes. Attempts by the federal government to stiffen customs requirements have only resulted in a greater demand for illegal facilitation services.

During the summer of 1995, such activity was observed firsthand as one of us traveled from Turkey to Russia on a mafia-owned passenger bus. Except for his party, the only "passengers" on the bus were color televisions, car batteries, and friendly gun-toting mobsters. The actual border crossing consisted of a quick payoff to a uniformed official followed by a bumpy ride through a dry creek bed. On boarding the bus, the customs official cheerily announced, "Good morning, mafia! Passports please, mafia!" Without high tariffs and labyrinthine customs procedures, such border crossings would not be necessary.

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What Is to Be Done?

Far from being a "form" or a "stage" of capitalism, organized crime in Russia is a direct threat to capitalist reforms.

Widespread violence and crime in Russia have begun to generate nostalgia for authoritarian rule. Flagrant lawlessness has resulted in a resurgence of politicians who promise to re-establish order and fairness by using the brute force of government. Increased criminal activity fueled the backlash that contributed to ultranationalist Vladimir Zhirinovsky's electoral success in 1993. Zhirinovsky's platform included on-the-spot execution of criminal gang leaders by firing squad and the wholesale seizure of assets thought to belong to criminals.

Moreover, rampant theft, fraud, and extortion have rendered property rights meaningless to many Russians, and without credible property rights, ownership will not facilitate investment and economic efficiency. Adam Smith made that point more than two hundred years ago. Owners, he said, have strong incentives to eliminate waste and maximize the value of their property, naturally seeking "the most advantageous application of every inch of ground upon [their] estate." Insecure property rights not only remove the incentives to improve one's property but also discourage the purchase of new property. Indeed, as political scientist David Weimer clearly explains in his new book, *The Political Economy of Property Rights*, "the greater the perceived risk of losing existing property rights, the less likely the holders of those rights will be to forgo current consumption to accumulate property."

As Russia shows, excessive taxes, regulations, and state ownership of property, coupled with a legacy of all-pervasive government control and an economy that was forced underground, lead to rampant corruption and crime. The role of the Russian state is vital to bringing that crime under control, but it must be limited in scope. Continued privatization and liberalization will render most criminal activity unprofitable, but such reform must be accompanied by changes in the police and legal system. Russia's private businesses are plagued by the inability to legally enforce contracts. Laws are often conflicting, and police departments cannot be relied on to provide protection from physical harm. Russian lawmakers must clarify contract laws. In addition, police salaries should be increased to limit incentives for corruption.

In short, what Russia needs is not "more government" or "less capitalism" but a greater commitment to fulfilling the core tasks of liberal governance: the prevention of harm and the protection of property rights. Just as important, privatization, tax relief, and deregulation must be more vigorously pursued. Continuing failure in those areas will jeopardize the long-term viability of Russia's capitalist reforms and expose it to financial crisis. □

Coming in the September *Freeman*:

Tributes to the late Leonard E. Read in commemoration of the 100th anniversary of his birth. Plus Jo Kwong, Jerry Taylor, and Jarret Wollstein on the environment—and the usual array of columns, book reviews, and features.

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THE FREEMAN
Ideas On Liberty

A Letter from Russia

by Grigory Shishatsky

Dear Readers of *The Freeman,*

Hello, I am Grigory (Greg), whom you might remember from a previous issue of *The Freeman* ("Letters From Russia," October 1997). First, I should say I have read several issues of *The Freeman,* which I received from my friend Dennis Peterson, and it has been a real eye-opener to me concerning developments in the United States and other countries.

Second, I am neither an expert in economics nor a politician. I'm just an ordinary Russian man; therefore, I can tell you only what I see around me and what I think and how I feel about what I see. Of course, I was not and am not such a giant of dissidence as Aleksandr Solzhenitsyn or Vasily Aksyonov, whose books we now can read without being afraid of persecution. Nevertheless, I still think that some of my views, opinions, and experiences may be quite interesting to the American reader.

More than ten years have already passed since the beginning of *perestroika* and almost seven years since the disintegration of the Union of Soviet Socialist Republics. But Russia (to say nothing of all the other republics of the former Soviet empire) is still very far from being a free country. But regardless of what the pro-communist newspapers say, it is my firm conviction that life is improving in Russia, and events are becoming more predictable.

Even with the little freedom we now have in Russia, I think the situation is great because in Soviet times I had less than I have now. As surprising as it may seem, I was not so much disappointed by the continual shortage of various consumer products as by the *lack of information* about what had been going on in the rest of the world. The Soviet people lived in a kind of information vacuum. All we heard and read was "the tremendous achievements of the Soviet people on the road to communism."

The communist party leaders thought they "knew better" which books the Soviet people should or should not read. Most of the nonfiction books that had been published in the West were out of reach here, although their titles had often been mentioned with much scorn and disapproval in Soviet books, magazines, and newspapers. They were considered "anti-scientific" and "anti-social," contradicting the Soviet science and "the Soviet moral conceptions." For example, *Psycho-Cybernetics* by Maxwell Maltz, *Guide to Personal Happiness* by Albert Ellis and Irving Becker, *How to Develop a Winning Personality* by Martin Panzer, and many other books on self-improvement, were banned. The Soviet literary critics condemned such books for proclaiming egotism and individualism, whereas the Soviet man's priority, they declared, should be diligent work for the welfare of his homeland and the building of communism.

Nowadays I know for sure that I will not have to run all over the town and through every store in search of a package of washing

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Readers may recall this photo of Greg and his son, which first appeared in The Freeman last fall.

powder, an electric bulb, or a pair of socks, as I used to do in Soviet times. All of these products are available at the local marketplace at reasonable prices. I will never forget how in 1982 a friend and I used to stand in line for three hours or even longer at the only milk shop in this town just to buy some milk.

Short Memories

Even today the communist newspapers prefer not to mention such facts. They ramble on continuously about how harmful Boris Yeltsin's reforms have been to Russia and declare that the reforms are leading only to the decay and ruin of our country. I cannot agree with such views because what I see indicates quite the opposite. The people's faces have changed. I can see more smiles around me. The young men and women have become less inhibited. The shop assistants have become more polite, attentive, and courteous toward the consumers.

In Soviet times, when someone approached a saleswoman, she would look at him with a what-do-you-want-from-me expression on her face as if he were her personal enemy. It may seem either funny or insignificant, but that's just how it used to be. Now if someone enters a store, he will invariably hear, "What can I do for you?"—especially if he visits a *private* store. The salesclerks know that if they are rude the customers may turn around and go to another store because there are plenty of them.

Since the beginning of the *perestroika* and *glasnost* of Mikhail Gorbachev, we have read a lot of materials about V. I. Lenin, Josef Stalin, Nikita Khrushchev, Kliment Voroshilov, Vyacheslav Molotov, and other creators of the first socialist state in the world. Such materials had been top secret because they depicted "the leaders of the world socialist revolution" in their true devilish nature: extremely cruel, ambitious, bloodthirsty, and power-craving. Now many *young* people hardly believe in socialism "with a human face," and the aged people have become disappointed and even frustrated because they have lost the ideals (and the idols) in which they truly believed.

Fond of the Bottle

Unfortunately, some people fail to see and enjoy the newly gained liberties, and I am inclined to think that most of these people are men and women who are fond of the bottle. They are unemployed but hardly even make an effort to find themselves jobs. They grumble about the difficulties of life and at the same time sell their own last belongings (such as chicken feed, pillowcases, or blankets) to whoever may be interested in buying them. However, they spend the money they gain not for improving their living conditions but on another couple of bottles of vodka or moonshine. Such people don't care about reading books or doing anything else that might lead to self-improvement and the acquisition of a marketable profession. I don't think that it would make any difference for them whether they lived in Russia or in America—they will never be satisfied.

Having talked to a good number of people, I've come to the conclusion that there are seven categories of people in Russia today.

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1. Those who care little about which kind of regime they live under—socialism, capitalism, or totalitarianism. They hardly know or care about the difference. Such people are usually drunkards, loafers, drug users, petty criminals, or tramps.

2. Those who make every effort to improve their living conditions but are unable to adjust themselves to the current political and economic situation in Russia. Such people usually say, "We lived much better in Soviet times." They are inclined to blame the government, the reforms, and even "the hand of Washington" for all of their troubles.

3. Those who are categorically against the return to the road to communism because they realize that any such return would lead to civil war. These people fully support the reforms, in spite of the difficulties they may face, because they know how to benefit from the new liberties and the free market, not only in the political and economic sense but also in the sense of spiritual self-improvement. I believe that I am in this category.

4. Those who are known as the "New Russians," the richest people in this country. They have become rich as a result of the reforms, and they know full well that if the communists come back to power they will be deprived of their wealth very soon after and will go straight to a labor camp. Of course, they are against the communist ideals.

5. Those who are nostalgic for "the good old Soviet times" when all the Soviet people were "brothers and sisters" and unanimously supported the Communist Party, which was doing its best day and night to achieve the well-being of the *whole* Soviet nation. Most of these people are elderly, in their sixties and seventies. They are pensioners, veterans of World War II (who had a lot of privileges in Soviet times), and the many ordinary aged people who are lonely and frustrated. These are the only people for whom I am sorry. They had fervently believed in the "radiant future," but they gained nothing. Now they think that it is too late for them to think about the future, whatever it may be.

6. Those who are involved in organized crime. They are neither for nor against the reforms. They are accustomed to solving their "problems" with "the fists of iron." They have all the necessary means to do this, being even better equipped than the police force. They are extremely dangerous (as much as in any other country, regardless of political system), and the only "comfort," according to the opinions of some people, is that they do not physically harm the ordinary people because the ordinary people almost never stand in their way.

7. The young Russians who are in their twenties and thirties. Most of them look to the future with confidence. They are too young to remember Soviet times, having been their parents' dependents, and they have a rather vague idea of life in those days. They are not at all excited about socialist ideas. Many of them study at colleges, in technical schools, and in business schools. Many have good jobs and are even able to support their parents. For example, a 23-year-old kung-fu student of mine recently married, started his own small business, and seems to be very happy. I could say the same about many young men and women who were students of mine.

New Prices

In January 1998, the Russian government instituted a monetary reform. We now have "new" money. Both the old money and the new will be circulated during 1998. Three zeroes are being removed from the old denominations; that is, the thousand-ruble bill will be equal to the new one-ruble bill. Stores and commercial kiosks have already replaced the old price lists with the new. A loaf of bread will cost nineteen hundred rubles (old price), or one ruble and ninety kopeks (new). Some people are afraid that prices may increase because of this change, but I don't think so. Everything will be all right.

A lot of changes have occurred in Russia over the last few years, and many of them are, in my opinion, for the better. At least for now, Russia seems to be on the right way despite all the difficulties.

Your friend in Russia,
Grigory Shishatsky

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Creative Apathy

One man's bugaboo is another man's delight. Consider this quotation:

> We don't even care about Washington. Money is extracted from Silicon Valley and then wasted by Washington. I want to talk about people who create wealth and jobs. I don't want to talk about unhealthy and unproductive people. If I don't care enough about the wealth-destroyers in my own country, why would I care about the wealth-destroyers in another country?

Those are the words of a computer-industry executive. I'd like to shake his hand. (Unfortunately, I don't know who he is.)

But Thomas Friedman, the *New York Times* columnist, would like to grab this guy by the lapels and give him a good thrashing. Friedman can't fathom the executive's lack of interest in what are self-servingly called public affairs. All the vital technological, trade, and financial innovations, he writes, are "happening in a world stabilized by a benign superpower called the United States of America, with its capital in Washington, D.C." How can a businessman at the cutting edge resist awakening in breathless anticipation of what marvelous things his government will be doing that day?

Lest that executive think he and the other children of Adam Smith make the world go round, Friedman has news for them: "The hidden hand of the global market would never work without the hidden fist. And the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the United States Army, Air Force, Navy and Marine Corps (with the help, incidentally, of global institutions like the U.N. and the International Monetary Fund). And those fighting forces and institutions are paid for by all the tax dollars that Washington is 'wasting' every year."

Well, now. No doubt about where Thomas Friedman stands—although he seems to press his case with a little too much gusto. Really, the IMF and U.N.? Why did he neglect to mention the Peace Corps and International Labor Organization while he was at it?

But the exec did hit a nerve. When Friedman asked him how often he talked about "Iraq or Russia or foreign wars," the executive apparently enraged the otherwise unflappable Friedman by answering, "Not more than once a year."

Now, I am too diplomatic to do more than mention here something my colleague Beth Hoffman reminded me of, namely, that Friedman is the *Times*'s foreign policy columnist. Maybe I'm not so diplomatic. Friedman has a direct career interest in people's continual agitation about foreign affairs—once a year is considerably less frequent than Friedman's column. That the nobs of high tech don't care what's going on in Iraq or Russia or foreign wars is equivalent to them not caring about what Friedman does for a living. That's discomforting. No one likes to contemplate a fall in demand for his product.

Sheldon Richman is editor of The Freeman.

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Friedman is merely carrying on a long tradition in which *New York Times* foreign affairs writers, perhaps frustrated they haven't been elevated to undersecretary of state or to a comfy ambassadorship, carry water for the diplomatic establishment. You have to sympathize with them. Americans have never been enthusiasts for foreign adventures. They traditionally have required adroit hornswoggling to get them sufficiently stirred about things like unpleasantness between Hutus and Tutsis or between Bosnians and Serbs. News of a strongman in the Caribbean was the occasion for a yawn. To get them to take notice, Washington had to convince Americans that the savages' next stop was Cleveland. This is one of the American people's most endearing attributes.

That indifference has always been a threat to those who earn their filet mignon endeavoring to project American power abroad. What if members of Congress contract their constituents' apathy and begin to trim the budgets for foreign aid and the international lending institutions, not to mention the U.N. and diplomatic corps? No congressman likes being confronted at a meeting in his district by an irate citizen who wants to know "why you are spending all that money on foreigners when the needs of our own people are neglected." The foreign policy establishment—which includes most of the national media—will pay top dollar for ways to keep congressmen from succumbing to that kind of pressure.

One of the most effective ways is for the national media to associate support for the foreign policy establishment with political sobriety. Whenever a crucial vote pends in Congress, perhaps a treaty ratifying the President's already-made promise committing the American people to something or other, you can count on the editorial and op-ed pages of the *Times* and *Washington Post* to solemnly intone that America's credibility demands a favorable vote. It's a good thing the supply of words is unlimited, else we would have run out of *credibility* years ago.

How interesting that Friedman sees Silicon Valley as insufficiently patriotic. Computer executives think of their firms, not as American companies, he complains, but as "I.B.M. U.S., I.B.M. Canada, I.B.M. Australia, I.B.M. China."

"Oh yeah?" he inveighs. "Well, the next time you get in trouble in China, then call Li Peng for help. And the next time Congress closes another military base in Asia—and you don't care because you don't care about Washington—call Microsoft's navy to secure the sea lanes of Asia. And the next time the freshman Republicans want to close more U.S. embassies, call America Online when you lose your passport."

Is it necessary to remind Friedman that Silicon Valley's exports don't require sea-lanes? They can use something called cyberspace. Capital can travel through that medium as well. If anything is holding up cyberspace as the preferred method of travel for capital and other values, it's the very Washington in whose defense Friedman perspires. It is Washington that is stifling the export and hence development of electronic encryption software, which is needed to keep prying eyes out of e-mail. Global communications, therefore, are not secure. That might explain Silicon Valley's sense that Washington is something less than the guardian Friedman sees.

As for his idea that Washington's "hidden fist" is responsible for global commercial order, Friedman shows some historical deficiency. The world trading system we have inherited was built originally without the help of any superpower or transnational political authority. The collapse of the Roman Empire brought with it a collapse of world commerce. In the eleventh and twelfth centuries, trade revived hand in hand with the development of a highly sophisticated body of mercantile law that was the product of the traders themselves, a dramatic example of unplanned order. Merchants from disparate cultures had a common interest in greasing the gears of commerce. As a result, they themselves generated good law whose benefits we still reap. Governments were not responsible for it. (The story of the Law Merchant is found in Harold Berman's magisterial *Law and Revolution*, available from FEE.)

Theory *and* history support Silicon Valley's attitude that Washington is the headquarters for wealth-destroyers. □

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THE FREEMAN
Ideas On Liberty

Great Myths of the Great Depression

by Lawrence W. Reed

Many volumes have been written about the Great Depression and its impact on the lives of millions of Americans. Historians, economists, and politicians have all combed the wreckage searching for the "black box" that will reveal the cause of this legendary tragedy. Sadly, all too many of them decide to abandon their search, finding it easier perhaps to circulate a host of false and harmful conclusions about the events of seven decades ago.

How bad was the Great Depression? Over the four years from 1929 to 1933, production at the nation's factories, mines, and utilities fell by more than half. People's real disposable incomes dropped 28 percent. Stock prices collapsed to one-tenth of their pre-crash height. The number of unemployed Americans rose from 1.6 million in 1929 to 12.8 million in 1933. One of every four workers was out of a job at the Depression's nadir, and ugly rumors of revolt simmered for the first time since the Civil War.

Old myths never die; they just keep showing up in college economics and political science textbooks. Students today are frequently taught that unfettered free enterprise collapsed of its own weight in 1929, paving the way for a decade-long economic depression full of hardship and misery. President Herbert Hoover is presented as an advocate of "hands-off," or laissez-faire, economic policy, while his successor, Franklin Roosevelt, is the economic savior whose policies brought us recovery. This popular account of the Depression belongs in a book of fairy tales and not in a serious discussion of economic history, as a review of the facts demonstrates.

The Great, Great, Great, Great Depression

To properly understand the events of the time, it is appropriate to view the Great Depression as not one, but four consecutive depressions rolled into one. Professor Hans Sennholz has labeled these four "phases" as follows: the business cycle; the disintegration of the world economy; the New Deal; and the Wagner Act.[1]

The first phase explains why the crash of 1929 happened in the first place; the other three show how government intervention kept the economy in a stupor for over a decade.

Phase I: The Business Cycle

The Great Depression was not the country's first depression, though it proved to be the longest. The common thread woven through the several earlier debacles was disastrous manipulation of the money supply by govern-

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ment. For various reasons, government policies were adopted that ballooned the quantity of money and credit. A boom resulted, followed later by a painful day of reckoning. None of America's depressions prior to 1929, however, lasted more than four years and most of them were over in two. The Great Depression lasted for a dozen years because the government compounded its monetary errors with a series of harmful interventions.

Most monetary economists, particularly those of the "Austrian school," have observed the close relationship between money supply and economic activity. When government inflates the money and credit supply, interest rates at first fall. Businesses invest this "easy money" in new production projects and a boom takes place in capital goods. As the boom matures, business costs rise, interest rates readjust upward, and profits are squeezed. The easy-money effects thus wear off and the monetary authorities, fearing price inflation, slow the growth of or even contract the money supply. In either case, the manipulation is enough to knock out the shaky supports from underneath the economic house of cards.

One of the most thorough and meticulously documented accounts of the Fed's inflationary actions prior to 1929 is *America's Great Depression* by the late Murray Rothbard. Using a broad measure that includes currency, demand and time deposits, and other ingredients, Rothbard estimated that the Federal Reserve expanded the money supply by more than 60 percent from mid-1921 to mid-1929.[2] The flood of easy money drove interest rates down, pushed the stock market to dizzy heights, and gave birth to the "Roaring Twenties."

By early 1929, the Federal Reserve was taking the punch away from the party. It choked off the money supply, raised interest rates, and for the next three years presided over a money supply that shrank by 30 percent. This deflation following the inflation wrenched the economy from tremendous boom to colossal bust.

The "smart" money—the Bernard Baruchs and the Joseph Kennedys who watched things like money supply—saw that the party was coming to an end before most other Americans did. Baruch actually began selling stocks and buying bonds and gold as early as 1928; Kennedy did likewise, commenting, "only a fool holds out for the top dollar."[3]

When the masses of investors eventually sensed the change in Fed policy, the stampede was underway. The stock market, after nearly two months of moderate decline, plunged on "Black Thursday"—October 24, 1929—as the pessimistic view of large and knowledgeable investors spread.

The stock market crash was only a symptom—not the cause—of the Great Depression: the market rose and fell in near synchronization with what the Fed was doing.

Phase II: Disintegration of the World Economy

If this crash had been like previous ones, the subsequent hard times might have ended in a year or two. But unprecedented political bungling instead prolonged the misery for twelve long years.

Unemployment in 1930 averaged a mildly recessionary 8.9 percent, up from 3.2 percent in 1929. It shot up rapidly until peaking out at more than 25 percent in 1933. Until March 1933, these were the years of President Herbert Hoover—the man that anti-capitalists depict as a champion of noninterventionist, laissez-faire economics.

Did Hoover really subscribe to a "hands off the economy," free-market philosophy? His opponent in the 1932 election, Franklin Roosevelt, didn't think so. During the campaign, Roosevelt blasted Hoover for spending and taxing too much, boosting the national debt, choking off trade, and putting millions of people on the dole. He accused the president of "reckless and extravagant" spending, of thinking "that we ought to center control of everything in Washington as rapidly as possible," and of presiding over "the greatest spending administration in peacetime in all of history." Roosevelt's running mate, John Nance Garner, charged that Hoover was "leading the country down the path of socialism."[4] Contrary to the modern myth about Hoover, Roosevelt and Garner were absolutely right.

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The crowning folly of the Hoover administration was the Smoot-Hawley Tariff, passed in June 1930. It came on top of the Fordney-McCumber Tariff of 1922, which had already put American agriculture in a tailspin during the preceding decade. The most protectionist legislation in U.S. history, Smoot-Hawley virtually closed the borders to foreign goods and ignited a vicious international trade war. Professor Barry Poulson notes that not only were 887 tariffs sharply increased, but the act broadened the list of dutiable commodities to 3,218 items as well.[5]

Officials in the administration and in Congress believed that raising trade barriers would force Americans to buy more goods made at home, which would solve the nagging unemployment problem. They ignored an important principle of international commerce: trade is ultimately a two-way street; if foreigners cannot sell their goods here, then they cannot earn the dollars they need to buy here.

Foreign companies and their workers were flattened by Smoot-Hawley's steep tariff rates, and foreign governments soon retaliated with trade barriers of their own. With their ability to sell in the American market severely hampered, they curtailed their purchases of American goods. American agriculture was particularly hard hit. With a stroke of the presidential pen, farmers in this country lost nearly a third of their markets. Farm prices plummeted and tens of thousands of farmers went bankrupt. With the collapse of agriculture, rural banks failed in record numbers, dragging down hundreds of thousands of their customers.

Hoover dramatically increased government spending for subsidy and relief schemes. In the space of one year alone, from 1930 to 1931, the federal government's share of GNP increased by about one-third.

Hoover's agricultural bureaucracy doled out hundreds of millions of dollars to wheat and cotton farmers even as the new tariffs wiped out their markets. His Reconstruction Finance Corporation ladled out billions more in business subsidies. Commenting decades later on Hoover's administration, Rexford Guy Tugwell, one of the architects of Franklin Roosevelt's policies of the 1930s, explained, "We didn't admit it at the time, but practically the whole New Deal was extrapolated from programs that Hoover started."[6]

To compound the folly of high tariffs and huge subsidies, Congress then passed and Hoover signed the Revenue Act of 1932. It doubled the income tax for most Americans; the top bracket more than doubled, going from 24 percent to 63 percent. Exemptions were lowered; the earned income credit was abolished; corporate and estate taxes were raised; new gift, gasoline, and auto taxes were imposed; and postal rates were sharply hiked.

Can any serious scholar observe the Hoover administration's massive economic intervention and, with a straight face, pronounce the inevitably deleterious effects as the fault of free markets?

Phase III: The New Deal

Franklin Delano Roosevelt won the 1932 presidential election in a landslide, collecting 472 electoral votes to just 59 for the incumbent Herbert Hoover. The platform of the Democratic Party whose ticket Roosevelt headed declared, "We believe that a party platform is a covenant with the people to be faithfully kept by the party entrusted with power." It called for a 25 percent reduction in federal spending, a balanced federal budget, a sound gold currency "to be preserved at all hazards," the removal of government from areas that belonged more appropriately to private enterprise, and an end to the "extravagance" of Hoover's farm programs. This is what candidate Roosevelt promised, but it bears no resemblance to what President Roosevelt actually delivered.

In the first year of the New Deal, Roosevelt proposed spending $10 billion while revenues were only $3 billion. Between 1933 and 1936, government expenditures rose by more than 83 percent. Federal debt skyrocketed by 73 percent.

Roosevelt secured passage of the Agricultural Adjustment Act (AAA), which levied a new tax on agricultural processors and used the revenue to supervise the wholesale destruction of valuable crops and cattle. Federal agents oversaw the ugly spectacle of per-

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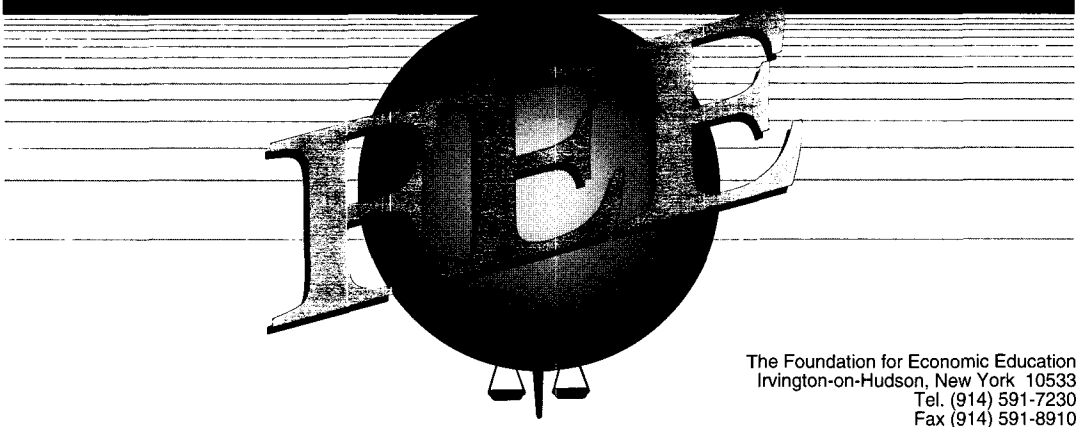

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August 1998

Arrogant Antitrusters

Here's a quiz. I'll first give you background facts, then ask you a question. Please answer "yes" or "no."

Facts: I have no experience in, or knowledge about, running a dry-cleaning establishment. I'm an economist who has spent his career teaching economics. My only experience with dry-cleaning firms is that I use them to clean my suits.

Question: If you had $100,000 to invest, would you lend me this money to start and operate a dry-cleaning firm?

If you answered "yes," stop reading and call me pronto. I want to talk with you about a variety of ways that you and I might do business together.

If you answered "no," congratulations—you're sane. You would be dimwitted to trust your wealth to someone who proposed to undertake an enterprise for which he has no knowledge, experience, or training.

It isn't that running a dry-cleaning firm is unusually difficult or risky. Rather, the reason you would be crazy to trust me to put your wealth on the line in such an enterprise is that dry cleaning is not *my* specialty. With the many people who specialize today in running dry-cleaning establishments, someone without a jot of experience in this field will almost certainly be out-competed by dry-cleaning specialists. Even if you believe me to be exceptionally bright, energetic, and trustworthy, you will still refuse to trust your funds to me *for this purpose*— because you rightly understand that I have no clue about any of the zillion tiny but important details about running a dry-cleaning firm.

When the subject is antitrust regulation, however, most people lose this commonsensical appreciation of just how important experience and specialized knowledge are to the successful operation of an enterprise. Consider the widespread applause that greeted the Department of Justice's antitrust suit against Microsoft. In essence, this applause signals that a large number of Americans actively support the exercise by lawyers and bureaucrats of decision-making authority over business people who are highly specialized in their trades.

Recall that just days before the DOJ filed this suit, top antitrust bureaucrat Joel Klein spent hours negotiating with Bill Gates and his colleagues over the contents of Microsoft's popular Windows operating system. Think about this. A lawyer was telling a software maker how to make software! Isn't this ludicrous?

If Joel Klein were accosted with Bill Gates's opinion on how best to cross-examine courtroom witnesses, Klein would surely regard Gates as an impudent busybody. As with most occupational specialties, successful lawyering requires a complex blend of detailed knowledge and skills that can be acquired only through trial-and-error experience. Even if Gates

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were the world's most dazzling genius, he cannot hope to understand lawyering as well as any modestly intelligent and experienced lawyer understands this trade. Gates is unable to adequately second-guess or advise Joel Klein, Esq., on lawyering precisely because Gates devotes his time and mental efforts to designing and marketing computer software.

If it would be brazen for Gates to tell Klein how to practice law, it is equally brazen for Klein to tell Gates how to produce and market software. Because he is a lawyer, Klein cannot possibly appreciate the countless nuances that must be mastered to compete successfully in the software industry. And yet, antitrust statutes empower Klein to compel Gates and other specialized producers to change their ways of doing business so that these ways better conform to what Klein and his team of lawyers prefer.

Trusting bureaucrats with such power is to trust them with a big chunk of the nation's wealth; it is to trust them to outperform Bill Gates & Co.—proven software specialists—at using Microsoft's resources to satisfy consumers' software demands. If you wouldn't trust me to wisely use your resources in the running of a dry-cleaning firm, why would you trust Joel Klein to allocate resources in industries in which he is totally unspecialized? Not only will Gates be harmed—so, too, will consumers. To the degree that government lawyers have a say in how Microsoft produces and markets its products, the decisions of persons who know almost nothing about the software market displace the decisions of those who are proven to know most about this market (and who also have the greatest personal stake in using this knowledge effectively).

"But wait!" many will retort, "Isn't antitrust necessary to ensure competition?"

No. Forget that economists—despite a century of antitrust regulation—have a tough time documenting cases in which antitrust has helped consumers. Forget also that the record overflows with instances of firms filing antitrust suits to hobble their more entrepreneurial rivals.

Markets will remain competitive without antitrust because entrepreneurs are forever scouring the economic landscape in search of profit—and profit is highest where incumbent firms aren't giving consumers the best possible deals.

If Microsoft really is such an enemy of consumers, imagine the profit available to private entrepreneurs who succeed in stripping Microsoft of its market share. It would be colossal! Entrepreneurial software specialists—literally from around the world—would work tirelessly to better serve consumers. Entrepreneurs' relentless quest for profits keeps markets competitive.

For example, software producer Pixel Co. recently announced a product called "My Screen" that makes it easier for users of Microsoft's Windows to click on to applications that aren't featured on the Windows desktop. According to industry analyst Rob Enderle, "Instead of just complaining about Microsoft's control of the screen, this company has figured out a way around the problem." This is entrepreneurship at work!

But a pessimist might ask, "Can we be certain that private entrepreneurs will always figure out how to dislodge 'dominant' firms from their entrenched positions?"

The correct response is that private entrepreneurial specialists (such as those at Pixel Co.) are far more likely to know just how best to take on so-called "dominant firms" than are bureaucrats and lawyers. There's no reason under the sun to expect that government-employed attorneys are better positioned than are specialized entrepreneurs, operating in a free market, to evaluate existing market conditions and to know just what to do if corrections are needed.

If Joel Klein really is so sure that Bill Gates is abusing consumers, let him set up his own software firm to compete with Microsoft. But Klein should not be given the power to *command* that Microsoft conform its business practices to his lawyerly wishes. If Klein is unwilling to put his own wealth on the line in competition with Microsoft, we can be confident that he doesn't know what he's doing when ordering Microsoft about. Consumers should be saved from arrogant antitrust bureaucrats .

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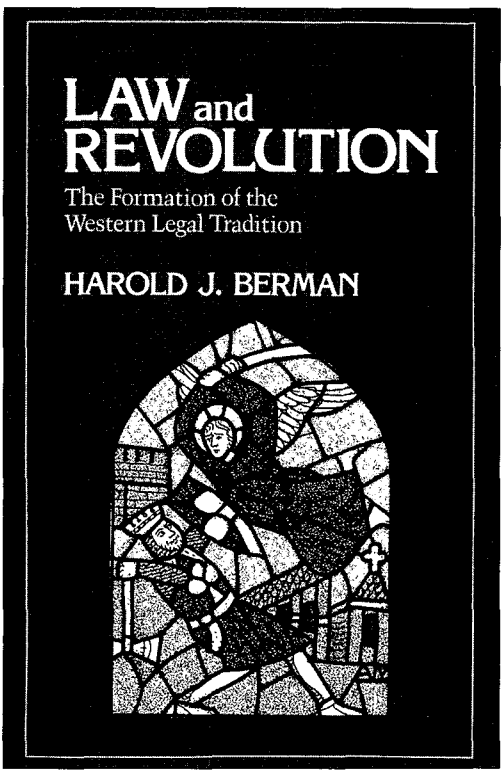

In this era of nation-states, we think of law as a body of rules that are centrally planned and imposed upon citizens by sovereign governments. Harold Berman's remarkable and award-winning book refutes this myth. Berman shows that law in the West is historically not the product of sovereign nation-states but, rather, of competition among different law-supplying institutions. Berman's research uncovers the exciting fact that during the law's formative era centuries ago, the crown competed with the church, with feudal manors, with cities, and with societies of merchants in supplying law. The lesson is profound: law generated by competing law-supplying institutions is likely to be superior to law produced monopolistically and centrally by a sovereign.

CONTENTS: Introduction. PART I: THE PAPAL REVOLUTION AND THE CANON LAW. 1. The Background of the Western Legal Tradition: The Folklaw. 2. The Origin of the Western Legal Tradition in the Papal Revolution. 3. The Origin of Western Legal Science in the European Universities. 4. Theological Sources of the Western Legal Tradition. 5. Canon Law: The First Modern Western Legal System. 6. Structural Elements of the System of Canon Law. 7. Becket versus Henry II: The Competition of Concurrent Jurisdictions. PART II: THE FORMATION OF SECULAR LEGAL SYSTEMS. 8. The Concept of Secular Law. 9. Feudal Law. 10. Manorial Law. 11. Mercantile Law. 12. Urban Law. 13. Royal Law: Sicily, England, Normandy, France. 14. Royal Law: Germany, Spain, Flanders, Hungary, Denmark. Conclusion. Index.

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fectly good fields of cotton, wheat, and corn being plowed under. Healthy cattle, sheep, and pigs by the millions were slaughtered and buried in mass graves.

Even if the AAA had helped farmers by curtailing supplies and raising prices, it could have done so only by hurting millions of others who had to pay those prices or make do with less to eat.

Perhaps the most radical aspect of the New Deal was the National Industrial Recovery Act (NIRA), passed in June 1933, which set up the National Recovery Administration (NRA). Under the NIRA, most manufacturing industries were suddenly forced into government-mandated cartels. Codes that regulated prices and terms of sale briefly transformed much of the American economy into a fascist-style arrangement, while the NRA was financed by new taxes on the very industries it controlled. Some economists have estimated that the NRA boosted the cost of doing business by an average of 40 percent—not something a depressed economy needed for recovery.

Like Hoover before him, Roosevelt signed into law steep income tax rate increases for the high brackets and introduced a 5 percent withholding tax on corporate dividends. In fact, tax hikes became a favorite policy of the president's for the next ten years, culminating in a top income tax rate of 94 percent during the last year of World War II. His alphabet agency commissars spent the public's tax money like it was so much bilge.

For example, Roosevelt's public relief programs hired actors to give free shows and librarians to catalogue archives. The New Deal even paid researchers to study the history of the safety pin, hired 100 Washington workers to patrol the streets with balloons to frighten starlings away from public buildings, and put men on the public payroll to chase tumbleweeds on windy days.

Roosevelt created the Civil Works Administration in November 1933 and ended it in March 1934, though the unfinished projects were transferred to the Federal Emergency Relief Administration. Roosevelt had assured Congress in his State of the Union message that any new such program would be abolished within a year. "The federal government," said the President, "must and shall quit this business of relief. I am not willing that the vitality of our people be further stopped by the giving of cash, of market baskets, of a few bits of weekly work cutting grass, raking leaves, or picking up papers in the public parks."

But in 1935 the Works Progress Administration came along. It is known today as the very government program that gave rise to the new term, "boondoggle," because it "produced" a lot more than the 77,000 bridges and 116,000 buildings to which its advocates loved to point as evidence of its efficacy.[7] The stupefying roster of wasteful spending generated by these jobs programs represented a diversion of valuable resources to politically motivated and economically counterproductive purposes.

The American economy was soon relieved of the burden of some of the New Deal's excesses when the Supreme Court outlawed the NRA in 1935 and the AAA in 1936, earning Roosevelt's eternal wrath and derision. Recognizing much of what Roosevelt did as unconstitutional, the "nine old men" of the Court also threw out other, more minor acts and programs which hindered recovery.

Freed from the worst of the New Deal, the economy showed some signs of life. Unemployment dropped to 18 percent in 1935, 14 percent in 1936, and even lower in 1937. But by 1938, it was back up to 20 percent as the economy slumped again. The stock market crashed nearly 50 percent between August 1937 and March 1938. The "economic stimulus" of Franklin Roosevelt's New Deal had achieved a real "first": a depression within a depression!

Phase IV: The Wagner Act

The stage was set for the 1937–38 collapse with the passage of the National Labor Relations Act in 1935—better known as the Wagner Act and organized labor's "Magna Carta." To quote Hans Sennholz again:

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> This law revolutionized American labor relations. It took labor disputes out of the courts of law and brought them under a newly created Federal agency, the National Labor Relations Board, which became prosecutor, judge, and jury, all in one. Labor union sympathizers on the Board further perverted this law, which already afforded legal immunities and privileges to labor unions. The U.S. thereby abandoned a great achievement of Western civilization, equality under the law.[8]

Armed with these sweeping new powers, labor unions went on a militant organizing frenzy. Threats, boycotts, strikes, seizures of plants, and widespread violence pushed productivity down sharply and unemployment up dramatically. Membership in the nation's labor unions soared; by 1941 there were two and a half times as many Americans in unions as in 1935.

From the White House on the heels of the Wagner Act came a thunderous barrage of insults against business. Businessmen, Roosevelt fumed, were obstacles on the road to recovery. New strictures on the stock market were imposed. A tax on corporate retained earnings, called the "undistributed profits tax," was levied. "These soak-the-rich efforts," writes economist Robert Higgs, "left little doubt that the president and his administration intended to push through Congress everything they could to extract wealth from the high-income earners responsible for making the bulk of the nation's decisions about private investment."[9]

Higgs draws a close connection between the level of private investment and the course of the American economy in the 1930s. The relentless assaults of the Roosevelt administration—in both word and deed—against business, property, and free enterprise guaranteed that the capital needed to jumpstart the economy was either taxed away or forced into hiding. When Roosevelt took America to war in 1941, he eased up on his antibusiness agenda, but a great deal of the nation's capital was diverted into the war effort instead of into plant expansion or consumer goods. Not until both Roosevelt and the war were gone did investors feel confident enough to "set in motion the postwar investment boom that powered the economy's return to sustained prosperity."[10]

Whither Free Enterprise?

On the eve of America's entry into World War II and twelve years after the stock market crash of Black Thursday, ten million Americans were jobless. Roosevelt had pledged in 1932 to end the crisis, but it persisted two presidential terms and countless interventions later.

Along with the horror of World War II came a revival of trade with America's allies. The war's destruction of people and resources did not help the U.S. economy, but this renewed trade did. More important, the Truman administration that followed Roosevelt was decidedly less eager to berate and bludgeon private investors, and as a result, those investors came back into the economy to fuel a powerful postwar boom.

The genesis of the Great Depression lay in the inflationary monetary policies of the U.S. government in the 1920s. It was prolonged and exacerbated by a litany of political missteps: trade-crushing tariffs, incentive-sapping taxes, mind-numbing controls on production and competition, senseless destruction of crops and cattle, and coercive labor laws, to recount just a few. It was not the free market that produced twelve years of agony; rather, it was political bungling on a scale as grand as there ever was. □

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Economics

Specialization and Wealth

Last month I explained how a remarkable degree of social cooperation emerges through market communication. This month, let's consider some of the advantages we realize from that cooperation. At a general level these advantages are obvious. It simply makes sense that we can produce more if our actions are in harmony than if we are working at cross-purposes. But to really understand economics, we must consider the link between cooperation and productivity in detail.

Wealth seldom comes as manna from heaven. It has to be produced by applying human effort, intelligence, and patience to natural endowments that yield their bounty reluctantly. This should be obvious. But one measure of the success of the marketplace at improving our productive powers is that it has become all too easy for people to assume that wealth is part of the natural order of things. Academics and policy wonks consider the *distribution* of wealth to be the primary issue, while dismissing any concern that their policy prescriptions could hamper its production. They drone on and on about the causes of poverty (or the "improper" distribution of wealth), apparently unaware that determining the causes of wealth is the serious challenge. The success of capitalism has blinded a remarkable number of otherwise intelligent people to the simple truth that distribution comes before production only in the dictionary.

Dwight Lee is Ramsey Professor of Economics and Private Enterprise at the University of Georgia.

Specialization's Special Role

When economics emerged as a separate academic discipline in the late eighteenth century, it was obvious what the economic problem was. Adam Smith titled his economics book *An Inquiry into the Nature and Causes of the Wealth of Nations*, and his concern with explaining wealth is apparent from the very first page.

Smith begins by observing: "The greatest improvement in the productive powers of labour . . . seem[s] to be the effects of the division of labour." He illustrates the importance of specialization, or the division of labor, by considering the advantage of having each worker in a pin factory concentrate on a particular step in production rather than producing a pin from beginning to end. Through specialization workers can become more skillful, use machinery that increases their productive powers, and avoid the loss of time from constantly changing activities. These advantages are rather obvious, but the increase in productivity is far greater than one would expect. According to Smith, ten pin-makers, by specializing in different tasks, can produce about forty-eight thousand pins a day. But if each attempted to perform every task in pin production, Smith doubted that they could each make twenty pins a day, or two hundred among them.

But it takes more than extra output to create a real increase in productivity. A specialist produces much more of a product, or part of a product, than he wishes to consume himself.

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Producing lots of output is not productive unless it ends up in the hands of those who value it. So the advantage of specialization can be realized only to the degree that people can cooperate, with each specializing in the production of something that others want in order to be able to acquire what he wants from the specialized production of others. The only way for this cooperation to occur, and thus the only way to realize the productivity of specialization, is through exchange.

Adam Smith recognized the crucial connection between exchange and productivity when he observed that "the extent of this division [of labor] must always be limited by . . . the extent of the market." If you can exchange only with those in a small village, your ability to specialize productively is extremely limited. For example, how many could afford to pursue careers writing novels, painting landscapes, or mastering musical instruments, no matter how great their talents, with only a few people to appreciate and reward their accomplishments? In such settings, most people tend to become "a jack-of-all trades, but master of none." The more limited the market, the more limited the productive potential of specialization.

Expanding the Market

The link between specialization and the size of the market provides another explanation of the importance of market cooperation based on private property and voluntary exchange. Cooperation is possible without markets, at least without markets as we normally think of them. Family members cooperate on the basis of intimate knowledge and shared concerns. Members of small firms can work cooperatively in response to a common objective and peer pressures. The same can be said for churches, clubs, and other relatively small social organizations. The cooperation within families, firms, and social organizations can be explained as the result of exchange relationships. (Gary Becker's writings on the family and the depiction of the firm as a "nexus of contracts" are good examples of such explanations.) But such relationships, because they depend on personal association and common objectives, are limited to relatively small groups.

A key to the productivity of the market is that it greatly extends the range of cooperation, and therefore greatly increases our ability to specialize productively. Obviously the expansion of markets has depended on improvements in transportation and communication networks. But without the information communicated through market prices, and the cooperation motivated by these prices, improvements in transportation and verbal and written communication would be insufficient to realize much of the advantage of specialization. Brazilians could communicate their desire for more denim clothing with a steady barrage of faxes, e-mails, and telephone calls to clothing manufacturers in every country in the world, with it being possible to ship the clothing to them overnight from anywhere on the globe. But without the information communicated by changes in relative market prices, Brazilians would be unable to motivate cotton growers, agricultural chemical producers, dye manufacturers, textile workers, truck drivers, airline pilots, merchants, and countless others to coordinate their specialized efforts to make sure that the denim clothing was made available in Brazil in the desired quantities and preferred styles.

The Impersonal Market

The market is often criticized as impersonal. It can be, but that's why it so greatly extends the range of cooperative specialization. People don't have to know, or care for, those they are cooperating with, or those whom their cooperative efforts are serving, when they respond to market prices.

The market does far more to foster multicultural cooperation and global harmony than can ever be achieved by the personal efforts of government diplomats. It is the cooperation and harmony of the marketplace, and the specialization that it allows, that explain the creation of wealth. □

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THE FREEMAN
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Capitalism: Discrimination's Implacable Enemy

by John Hood

Do racial minorities, women, and other groups need the government to protect them against prejudice and discrimination? To hear some prominent social commentators tell it, American business has a shameful record on social equality. Corporate boards lack significant minority representation. Minority consumers are underserved, and minority and female workers are underpaid. Minorities and women can't get financing to start their own businesses. "In most fields, there is a level beyond which people of color cannot rise," said Stephen Carter, the well-known author and law professor.[1] Similar complaints about the economic prospects of women have been popularized in recent years by such authors as Susan Faludi and Gloria Steinem.

This picture of the private sector as an arena of continued discrimination, inequality, and despair for everyone in society except white men is often repeated, presumed accurate by reporters and politicians, used to defend government affirmative action programs—and completely wrong. Not only is there great news to report for the economic accomplishments and prospects of previously downtrodden groups in America, but this good news is due almost totally to the triumph of commercial values over alternative values that have in the past put fear, racism, and insularity ahead of business success and profit.

The cornucopia of good news about social equality and American business overflows with little-noticed facts about our recent economic past. For example:

• American women were forming small businesses at twice the rate of men in the early 1990s. Businesses owned by women now employ more people than do all the firms in the Fortune 500 combined.[2] If the trends of the 1980s and early 1990s continue, women will own half of all U.S. businesses by the year 2000.[3] Similarly, the number of businesses owned by members of racial and ethnic minorities more than doubled from 1982 to 1994.[4]

• Before the Second World War, only 5 percent of American blacks had middle-class incomes. Today, the figure is about 60 percent.[5] From 1981 to 1991, the total income of blacks grew 38 percent, faster than the growth rate for the incomes of the white population. Almost half of all black households own their own homes.[6]

• Measured correctly, there is no evidence of significant discrimination in bank lending against prospective minority homebuyers.[7]

• Among full-time, college-educated workers, about the same percentage of blacks and whites have executive, administrative, or managerial jobs.[8]

Naturally, racial stereotypes, invidious discrimination, and animus still exist in America. But it is important to understand the role

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profit-seeking businesses play in combating these lingering problems. For corporate managers, excluding potential workers or customers because of race, gender, or other group characteristics means sacrificing future productivity and sales. It simply stands to reason that the wider you cast your net for employees or consumers, the better off you will be. To do anything less is to fail in your responsibility to the owners or shareholders.

Gary Becker, Nobel laureate in economics and a professor at the University of Chicago, pointed out the anti-discrimination effect of free enterprise in 1957, and has been restating his conclusion ever since. The key, he says, is competition. Screening out job applicants because of their group means reducing the chances of hiring the best worker, who may well go to work for a competing firm. Similarly, screening out whole groups of consumers means giving up sales to competitors. "Competition forces people to face costs, and therefore reduce the amount of discrimination when compared with monopolistic situations," Becker said.[9] So racism and discrimination are, over time, much more likely to persist in monopolistic institutions (like governments themselves) rather than in businesses.

Indeed, one might argue that without the largely unconscious pressure of the business sector on social attitudes, there would be a great deal more racism and social inequality. For governments, charged with protecting societies from their external or internal enemies, loyalty to one's group and the distrust of others is a virtue. It maximizes the physical safety of the society and protects its land from encroachment. But for traders the greatest rewards lie in trusting strangers, who are the source of new products and new ideas. That means seeking out and embracing people who are different from you—the more different they are, the more likely they are to have something of value to you. The social benefits of trade—of breaking down barriers between groups in the interest of mutual economic gain—have been enjoyed by every group in American society. Past immigrants, recent immigrants, racial minorities, religious minorities, and many others have sought and obtained in the marketplace what they did not have and could not achieve through politics or social activism.

Race, Gender, and Entrepreneurship

As mentioned, the number of businesses owned by racial minorities and women has been increasing rapidly in recent decades. Not only has the number of firms grown, but their share in the national economy has, too. Just from 1991 to 1995, for example, the combined revenue of the *Black Enterprise* 100 for industrial/service companies and auto dealers grew by 63 percent to $11.7 billion.[10] A third of the roughly 6.5 million enterprises with fewer than 500 employees were owned or controlled by women in 1994.[11]

Entrepreneurship has been a traditional route out of poverty for American minority groups of all sorts. Jewish, Greek, Cuban, and Japanese immigrants, for example, overcame prejudice and social barriers by entering occupations and markets ignored by native-born Americans, making themselves indispensable to the growth and development of the economy. As generations of immigrants gained economic success, their children and grandchildren pursued higher education, befriended and married individuals outside their own groups, and gradually obtained social tolerance and acceptance.[12]

Even within the artificially restricted markets left to them by Jim Crow segregation, some American blacks of the late nineteenth and early twentieth centuries were able to find opportunities for economic success. Arthur G. Gaston was born in 1892 in a log cabin his grandparents, former slaves, built in rural Marengo County, Alabama. After the early death of her husband, Gaston's mother moved to Birmingham in 1900 to be a cook for A.B. and Minnie Loveman, founders of what would later become the state's largest department store chain. Young Gaston, an admirer of Booker T. Washington, worked a number of odd jobs, including selling subscriptions for the local black newspaper. Later, he moved to Mobile and became a bellhop. After serving in the army during World War I, Gaston came home and took a job at the Tennessee Coal

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and Iron Co. Always looking for opportunities, he began selling box lunches (prepared by his mother) and peanuts and lending money to workers at the TCI plant. He started a burial society for the workers, too, which eventually acquired a mortuary and became Smith and Gaston Funeral Directors. In 1932, the burial society was incorporated as Booker T. Washington Insurance Co.[13]

New ventures followed. Gaston started a business college for black clerical workers in 1939, bought a cemetery in 1947, opened the Gaston Motel in 1954, and started the Citizens Federal Savings Bank in 1957 to lend money to blacks excluded from lending markets by segregation. Active in the civil rights movement and numerous civic and community organizations, Gaston kept adding to his business holdings during the 1960s, 1970s, and 1980s, buying radio stations and opening his own construction company. In 1994, *Black Enterprise* named A.G. Gaston, then 102 years old, as the magazine's Entrepreneur of the Century. In Gaston's view, his business success has enabled him to advance the cause of racial equality just as his hero Booker T. Washington had predicted. "Money has no color," Gaston said. "If you can build a better mousetrap, it won't matter whether you're black or white, people will buy it."[14]

Color-Blind Customers and Employers

The entrepreneurial explosion among women and members of minorities in the past few years has demonstrated that consumers, both households and businesses, will generally buy from anyone who can supply a high-quality product or service at a low price. The same might be said about American employers, who have discovered that businesses that want to compete effectively cannot afford to discriminate against workers because of race, sex, or other such characteristics. Indeed, having a workforce of people who meet high standards of quality and performance and bring differing backgrounds and perspectives to their jobs is often a recipe for success.

Vigorous political debates about such subjects as affirmative action and comparable worth obscure what is actually occurring in the American economy today: the gradual elimination of discriminatory hiring and firing practices, as well as rising levels of compensation and respect for minority and female workers. According to economist Howard R. Bloch of George Mason University, 70 to 85 percent of observed differences in income and employment among American racial and ethnic groups disappear when you adjust the numbers for factors such as age, education, and experience. "That's been shown by studies dating back to the mid-1960s," Bloch said. "And you can't even be sure that the residual gap is due to discrimination. It could be due to factors we haven't controlled for."[15]

In measurements of accumulated household wealth, as contrasted with annual income, minorities have also made tremendous gains. A Federal Reserve Bank of St. Louis study in 1989 found that observed differences between whites and minorities were no longer statistically significant once age and education were taken into account. "Members of minority groups are typically younger than whites, and therefore have had less time to accumulate assets," noted the author, John C. Weicher of the Hudson Institute.[16]

Similarly, apparent pay gaps between men and women don't prove the lack of "equal pay for equal work," as many critics allege. June O'Neal, head of the Congressional Budget Office, noted that when earnings comparisons are restricted to men and women with similar experience and life situations, the differences are small, particularly among today's young people. Among people 27 to 33 who have never had a child, the earnings of women are close to 98 percent of men's.[17] Even for broader groups of men and women, today's pay gaps mostly reflect the impact of such factors as women's shorter average working week and women's choice of careers that allow for greater flexibility should they wish to bear and rear children later on. Full-time working women also have, on average, less work experience than comparable males, again affecting their value to firms and thus their compensation.[18]

Progress toward more equal treatment of workers began long before the state and feder-

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al governments passed laws governing hiring. Thomas Sowell, a senior fellow at the Hoover Institution and the author of numerous books on affirmative action, notes that the number of blacks in higher-paying, professional occupations was increasing rapidly *before* the passage of the 1964 Civil Rights Act.[19] Several studies have found that the convergence of economic opportunities for blacks and whites, and men and women, began before World War II.[20] Harvard economist Richard Freeman has found that blacks and whites with similar backgrounds and education had essentially achieved pay equity by 1969.[21]

Many explanations for the pay convergence among American workers lie in the social changes wrought by an innovative business sector. Technological innovation in our economy, for example, has not only made us all collectively better off but also had the side effect of promoting greater pay equality. The substitution of machinery for human labor has reduced the value of physical strength and increased the value of mental acuity and social skills—which are distributed more evenly between sexes. At the same time, labor-saving devices in the home have given married women more freedom to pursue education and employment. Household chores that previously consumed hours of tedious work are now performed in whole or in part by electrical appliances or by outside contractors.[22] The result has been a revolution in time and family responsibility that is difficult to overstate.

If the logic of business success works against unfair and capricious treatment of workers on the basis of race or sex, then it virtually mandates that companies with the desire to maximize revenue not discriminate against potential customers. The fact that some businesses have done so, and continue to do so, reflects only that they are run by people who put their own personal biases above profit. Flagstar Cos., Inc., which operates Denny's and Hardee's restaurants throughout the south and west, is clearly not one of these businesses, despite some well-publicized cases of discrimination in the early 1990s.

In 1991, reports began to trickle in to Flagstar CEO Jerry Richardson of racial discrimination at some of his Denny's restaurants in California. Some black customers charged that they were denied service, while others said they were forced to prepay for food unlike white customers. Richardson immediately fired managers who had discriminated, apologized to offended customers, and instituted programs to train managers and workers with respect to racism. In a restaurant chain with thousands of employees across many states, it would have been impossible not to inadvertently hire some racists. The key issue was how company management saw its responsibility to correct problems as they arose. "It makes no sense that we would condone racism," said Richardson. "Denny's needs all the customers it can get."[23]

The Redlining Controversy

The efforts of corporations to cultivate regular customers among minority groups has been largely obscured in the public mind by the lingering controversy over "redlining" by banks, insurers, real estate agents, and similar types of businesses. Discussion of redlining is complicated by the fact that historically, some lenders and insurers were clearly willing to forgo the business of blacks and others to reinforce a social consensus of segregation in their communities. But this despicable—and economically unwise—practice would seem to be extremely rare today, despite incessant claims by activists and the media that redlining remains the rule.

The problem is that studies purporting to show discrimination in bank lending or insurance focus almost exclusively on rejection rates for loans and policies. These rejection rates often do, indeed, differ significantly among racial groups in studies. But these studies ignore many important factors that provide a more plausible explanation for the apparent disparity than does racism.[24] Sometimes the studies promoted so widely by the mass media, like the celebrated 1992 Federal Reserve Board of Boston study purporting to show higher black rejection rates than those of whites with similar incomes, are simply invalid; that study contained transcription and mathematical errors, inappropriate general-

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izations, and the skewing of average results by a few exceptional cases.[25]

Ironically, higher rejection rates are often found for those very institutions, including minority-owned banks, that are trying to extend credit in inner-city and minority neighborhoods, since banks in predominantly white areas are more likely to receive applicants from a smaller, more select group of minorities with better-than-average financial resources, work histories, or business prospects. When a bank opens a branch in a minority community, it will necessarily reject more minority applications than before.[26]

It is the personal characteristics of loan applicants—the items in their financial history likely to communicate to potential lenders the likelihood that their loans will be repaid—that explain virtually all racial or ethnic disparities. The most important measure of discrimination is not rejection rates, which are affected by a host of racially neutral factors, but instead the rates at which customers of different races or communities default on their loans. If households or businesses in black areas tend to default at lower rates than those in white areas, that would be evidence of discrimination, since blacks would seem to have to meet higher credit standards than whites do to get loans. On the other hand, if the default rates of blacks are higher, that would suggest discrimination in favor of them. In reality, the available evidence on default rates suggests that there is no significant difference between households and businesses of predominantly white and predominantly minority communities, suggesting that the latter are not being "redlined."[27] Other studies that have tried to identify actual racial discrimination by interviewing loan applicants have often failed to find any significant evidence of it.[28]

It is important to understand the role of profit-seeking business in eliminating disparities in income and economic opportunity that are based on racism and sexism. For groups kept from realizing the American dream by the prejudices and failures of the past, the best hope for progress in the future is an economy populated with companies whose managers put performance and profitability first. □

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Pounds of Prevention—Ounces of Cure

by George C. Leef

An ounce of prevention is worth a pound of cure, an old adage tells us. Like most old adages, there is wisdom here. It is sensible to spend a bit of time and effort to prevent a more costly bad occurrence.

If, for instance, you need to go up to your roof, you make sure that the ladder is steady before starting to climb. For the same reason, you test the bath water before putting the baby in, and you stop and check the traffic before pulling out onto the street. Every day, people take many precautions.

But just because some precautionary measures make sense, it does not follow that every such measure does so. When you go up to the roof, why not take even more precautions? After all, your assessment of the ladder's stability might be wrong. Why not purchase large foam cushions and place them all around the area in case you fall anyway? Why not hire two strong men to hold the ladder in case a wind blows the cushions away? Why not hire a team of paramedics and have them standing by to treat you if, despite all your precautions, misfortune still strikes?

The answer, of course, is that at some point, the cost of an additional bit of prevention outweighs the likelihood that it will do any good—pounds of prevention versus ounces of cure. If we took every imaginable precaution, we would never get anything done. Individuals are pretty good, though not infallible, at figuring out how far to go with their precautions.

Prevention and the Government

Many government programs are foisted on us with the argument that they are necessary to prevent bad things from happening. Advocates use the adage seductively: "Isn't it better to *prevent* [fill in something bad here] than to have to undo it later?" Presented this way, many people automatically nod in approval, and soon we have a new law that supposedly protects us from harm. Our wise and farsighted government will be there to steady our ladders and prevent all kinds of calamities. Who could possibly object?

We all should—because there are two basic differences between our personal decision-making aimed at preventing harm, and laws and regulations aimed at doing so.

The first difference is that in our own actions, we use only property that either belongs to us or which others have allowed us to use. Whatever degree of security against falling off a ladder we want, we obtain it without any coercion directed against other people.

The second difference is that when individuals make decisions about safety—or anything else—they directly bear the consequences, benefiting from good decisions and suffering from bad ones. Political decision-

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makers, in contrast, are usually far removed from the consequences of their acts.

Those differences make for a great dissimilarity between the precautions we take as individuals and those dictated by government. The latter are often inefficient—pounds of prevention to avoid ounces of cure—and they are always coercive. Let's consider some examples.

Occupational Licensing

Occupational licensing is touted as a means of preventing harm to consumers who buy services from people who are inadequately trained. An incompetent doctor, lawyer, architect—any professional—could do a lot of harm. Certainly it is better to *prevent* that harm than to try to rectify it afterward, isn't it? Licensing is just a sensible ounce of prevention, or so most people believe.

However, occupational licensing is not an ounce of prevention. It's not like checking to make sure your ladder is steady. Occupational licensing is an ineffective and coercive precaution that is markedly inferior to the precautions that are a part of the invisible hand of the free market.

In trying to prevent incompetent service providers, the government sets up strict standards for obtaining licenses and makes it illegal for unlicensed practitioners to hang a shingle—even if a customer wants their services. As it has often been noted, the impetus for licensing invariably comes from within an occupation itself, and the resulting system favors the interests of incumbent practitioners. Generally, the same professional association that called for licensing is given a key role in setting the licensing standards. Self-interest causes the profession to strive for "high" (meaning costly) standards so as to keep down the number of future practitioners.

Motives aside, the question is whether licensing actually protects consumers by setting competency standards. Many people regard it as a choice between standards (licensing) and no standards, but this is false. The free market is not without standards. If someone wishes to succeed in any line of commerce, he has to be good enough to pass *the test of the market.* He must satisfy customers and earn enough money to cover the cost of staying in business. Put another way, if someone who offers a service is not at least as good as his rivals, he will not last. He'll upset customers, establish a poor reputation, incur losses, perhaps be sued, and, sadder but wiser, be driven out.

People do not need economists to tell them it is foolhardy to squander their time and money trying to compete where they are not very good. The market effectively deters incompetence *prospectively* by penalizing it financially. The cost of failure is high and people know it. The market's standard is not one written in a statute book, but it is nevertheless real. What it takes to meet the competition and how one learns what is necessary for success are matters that the market leaves up to the individual—but not without its assistance. Because there is a demand for occupational training, we find that training programs (formal education, apprenticeships, or some combination thereof) are offered on the market. As a precaution against failure, individuals invest in training, and training programs themselves have to be good enough to pass the test of the market.

Self-interest therefore gives consumers a supply of competent service providers and filters out incompetents. Worrying about "barbers doing brain surgery" (to quote a pro-licensing wisecrack) is absurd. The market supplies well-trained brain surgeons, but also deters barbers from trying to do it.

And consider also the self-interest of the customer. To paraphrase Dr. Johnson, spending one's own money concentrates the mind wonderfully. Foolish contracting is something consumers worry about constantly, whether the transaction involves buying apples or selecting a doctor. They obtain information about a good or service before parting with their money. A large part of the test of the market is getting past the scrutiny of potential customers who are alert to evidence of success and good value as well as to evidence of failure and poor value.

This is not to say that there is no need for law in the marketplace. Laws against fraud, negligence, and breach of contract are impor-

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tant to ensure, so far as is possible, that neither buyer nor seller suffers from the actions of the other. Such laws are necessary to deal with the rare transaction that goes awry, but they do so retrospectively. And at this point, licensing advocates speak up and say, "But why not prevent those few bad transactions with licensing?"

Their underlying assumption is that licensed practitioners don't make mistakes. The fact that many malpractice cases are brought and won against licensed professionals each year is proof of the falsity of that assumption. But there is a further point that must be made in response: licensing actually leads to mistakes and consumer harm. Let's see why.

Licensing raises the cost of entering the market, thereby reducing the number of competitors. Consequently, practitioners will be able to charge higher prices than otherwise. That is the principal reason why professional organizations push for restrictive licensing statutes.

With higher prices, some people will be either unable to afford professional services or will regard them as a poor value compared to doing the work themselves or doing nothing at all. Either alternative can be hazardous. Doing your own electrical work may save money—or it might lead to costly and harmful mistakes. Doing nothing can also be harmful. The homeowner who says, "I can't afford an electrician now, but that old wiring will be okay for a while longer," may end up in a burning house.

The free market provides consumers with the optimal combination of price and competence. Government action cannot improve on that combination, even if its actions were those of a benevolent philosopher-king rather than of grasping interest groups and officeholders. Occupational licensing prevents little or no consumer harm, causes considerable harm by artificially raising prices, and accomplishes this bad tradeoff by the use of coercion.

Gun Control

Gun control is another government policy that is supposed to improve "social welfare" by preventing bad things from happening. Shootings of the innocent, accidental or deliberate, are bad things. For there to be a shooting, there has to be a gun. The smaller the number of guns in the hands of "unauthorized" people, the smaller the number of shootings. Therefore, we must keep guns out of the hands of people. Is this logic sound?

Most people who want to own a firearm want it for either self-defense or for sport. When government says to them through gun-control laws, "You cannot be trusted with a gun," they are made worse off. The hunter or target shooter will have to be content with something else (a bow and arrow, perhaps) after private gun ownership is forbidden. The woman who worries about being attacked when she walks across a dark parking lot after work has to settle for second best in the personal-defense market (mace, perhaps), an infringement on her freedom that could have tragic consequences.

People who are intent on using violence (or threats thereof) will find that gun-control laws raise the cost of their aggression only slightly. A prohibition against legal gun transactions no more prevents criminals from obtaining guns than Prohibition prevented people from buying whisky. Commerce is hard to stop. Criminals who want guns for their "business" therefore find that, despite gun control, guns are readily available at affordable prices.

In an important respect, gun control lowers the cost of aggression. While criminalizing gun ownership does little or nothing to stop bad uses of guns, it does much to prevent good uses. Gun control in fact increases the number of bad uses because it reduces the strongest deterrent to crime—the prospect that the criminal will encounter effective resistance. The likelihood of arrest and punishment once the criminal has left the crime scene is low, and they know it. The most dangerous point in the commission of a crime is at the time of the attack. Criminals of course prefer lower risks to higher risks, so government policies that reduce the likelihood or severity of resistance by victims lower the criminal's assessment of risk. Crime is encouraged.

The irony of gun control is that civil disobedience by the few people who illegally

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buy or carry guns keeps criminals in doubt about the defensive capabilities of the many who are utterly defenseless. Illegal gun ownership creates a large positive free-rider effect.

Gun control, like occupational licensing, finds widespread support because many people overestimate its benefits and ignore its costs. The government's attempt to prevent bad from happening actually causes more of it.

Social Security

Operating on the premise that government action is necessary to prevent elderly people from living in destitution, more than 60 years ago Congress set up the coercive Social Security system. The presumed need for government to prevent this bad thing from happening triumphed over the economic and constitutional arguments raised against the proposal. Despite mounting evidence that Social Security is financially unsound, we still hear a chorus of voices praising it as "our most successful social program." Is it?

Before Social Security, there were some destitute elderly. There were destitute people in all age groups, for that matter. However, there were voluntary organizations that assisted the deserving poor. Because there was no legal "entitlement" to income, everyone understood that there was a connection between his industry and prudence on the one hand and his ability to eat on the other.

Social Security (and other "safety net" programs) introduced the new idea that it was the government's responsibility to prevent destitution. The construction of a government "safety net" led to less and less individual effort to provide for themselves. The national savings rate fell from 12.3 percent in 1950 to 3.5 percent in 1994 because of government largesse and high taxes on earnings to fund that largesse.

The private accumulation of wealth that comes with individual responsibility has been to a large extent crowded out by government attempts to prevent suffering. Today, instead of millions of people with personal investment portfolios that would purchase retirement annuities worth thousands of dollars monthly, we have millions of people with little or no personal wealth, looking desperately to the government for checks worth a few hundred dollars per month.

Social Security not only makes individuals poorer than they'd be if they were self-reliant, but also hinders the operation of the economy. Personal savings would flow into the capital markets, thereby allowing for increased investment in productive assets. With Social Security, however, all the wealth that is taxed away is consumed. Most is paid out to current beneficiaries, and the Social Security "surplus" of recent years is "invested" in government bonds. Instead of productive investment directed by the market, Social Security facilitates increased government spending, often on agencies and programs that further interfere with the efficiency of our economy.

Moreover, in politicizing what should be a personal matter—guarding against loss of income—Social Security has set the stage for what is certain to be a nasty intergenerational battle when receipts no longer cover the benefits. We will surely witness an ugly political battle between the old, who will want what the government has promised, and the young, who will not want to pay the high taxes necessary to keep those promises. That bitter conflict would not have existed but for Social Security.

Social Security is thus another of those government prevention schemes that has virtually no preventative value, but manages to cost a great deal.

People using their own resources make the best harm-preventing decisions they can. Alas, when government tries to add its own harm prevention, it fails to make people safer. But it does stifle freedom. Besides the three discussed here, federal, state, and local governments have many other supposedly harm-preventing laws. Take a close look at them and see if they aren't also cases of pounds of prevention to avoid ounces of cure. □

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Individualist Feminism: The Lost Tradition

by Wendy McElroy

Women are, and should be treated as, the equals of men.

For many, that sentiment forms the core of feminist theory and policy. But historically, there has been substantial disagreement within the feminist movement over the meaning of the term *equality*. Does it mean: equality under existing laws; equality under laws more just than existing ones; a socio-economic equality that may require the law to accord privileges to women such as those embodied in affirmative action; or cultural equality that accords women the same "respect" as men enjoy rather than merely the same legal status?

Throughout most of the nineteenth century, the mainstream of American feminism defined the goal of equality as equal treatment with men under existing laws and equal representation within existing political institutions. For example, the cry of the National American Woman's Suffrage Association—which, after the passage of the Nineteenth Amendment, became the League of Women Voters—sought to include women in the existing electoral process. As such, the mainstream aimed at reform, not revolution.

More radical feminists of the day protested that the existing laws and institutions—in short, the existing political system—were the source of injustice toward women and it could not be reformed. These feminists saw something fundamentally wrong with society's laws, which created what many called a "class structure" and what the Austrian economist Ludwig von Mises would have called a "caste" structure. In short, the law created groups of people who were either advantaged or disadvantaged. For these feminists, the system needed to be swept away and replaced before women's rights could be secured.

The two basic traditions of feminism that fundamentally questioned the political system were socialist feminism, from which contemporary radical feminism draws, and individualist feminism, which is sometimes called libertarian feminism.

Ideological Differences

The differing ideologies of the two traditions were reflected in divergent approaches to equality. To socialist feminists, "equality" was a socio-economic term. Women could be equal only after private property and the economic relationships it encouraged—that is, capitalism—were eliminated. Equality was also a cultural goal that required the sweeping away of what today is called "white male culture." The nineteenth-century parallel of today's feminist crusades was the social-purity campaigns, in which socialist feminists prominently figured. Linda Gordon in *Woman's Body, Woman's Right* wrote, "The closer we look, the harder it is to distinguish social-purity groups from feminist ones." In general, the social-purity campaigns attempted to

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impose virtue—for example, as embodied in anti-obscenity laws—on society through force of law.

Individualist feminists approached equality in a more strictly legal manner, appealing to natural-law theory. They wished the individual rights of women to be fully acknowledged under laws that protected the person and private property of men and women identically. A term they favored was "self-ownership," which referred to the moral jurisdiction every human being has over his or her own body and over the products of his or her own labor. This approach not only embraced private property and natural rights, but also involved the refusal to impose virtue, or social purity, on peaceful individuals. Every adult had the right to choose any lifestyle that did not involve aggression against another.

This libertarian attitude did not spring from indifference to social problems, like prostitution. Quite the contrary. Individualist feminists, such as the physician Gertrude B. Kelly, worked with women in New Jersey tenement houses who had turned to prostitution because of poverty. As a result, she became a determined labor activist, demanding the elimination of legal barriers that hindered women in the workplace. Her first article in the radical individualist periodical *Liberty* dealt with this question in relation to prostitution and suggested that the inability of women to make an adequate living was the cause of that profession. She wrote: "We find all sorts of schemes for making men moral and women religious, but no scheme which proposes to give woman the fruits of her labor."

Individualist feminists cared deeply about social problems, but they did not believe in governmental solutions. Although many were firmly puritanical in their views and personal conduct, they were even firmer in their commitment to the right of peaceful individuals to choose. If they could not persuade people to be moral, they would not use force to impose a code of morality. Thus, when individualist feminists joined purity campaigns, such as temperance, they advocated voluntary, not legislated, abstinence.

There are other profound ideological differences between socialist and individualist feminism. Indeed, the key concepts of feminism within individualism—such as equality, justice, and class—bear so little relation to the concepts as used by socialists that the definitions often conflict.

Consider the concept of "justice." The socialist-feminist approach to justice is ends-oriented and defined in terms of a specific social condition. That is, socialist feminism provides a specific blueprint for a just society. Absent patriarchy and capitalism, that society is one in which the socio-economic and cultural equality of women is fully expressed. In other words, justice is the end-state at which society embodies explicit economic, political, and cultural arrangements.

By contrast, the individualist-feminist approach to justice is means-oriented: "justice" refers to a method and not to a specific social or economic arrangement. Whatever arrangements result from the free and peaceful choices of individuals is considered to be just in the legal sense of the word. Whatever is voluntary is "just," or, at least, it is as close to justice as non-utopia can come. For example, a college that discriminated against women and one that enforced a strict quota favoring them could exist side by side. As long as both were privately funded and no one was forced to participate in either, the arrangement would be just, and the law could not properly interfere.

Discriminating against women might be immoral, as many peaceful actions are, and individualist feminists might well attempt to change the first college's policy. But they would use education, protest, picketing, boycott, moral suasion—the whole slate of persuasive strategies. What they could not do as individualist feminists, however, would be to use force to restrict the college's peaceful choice to not associate with women. Freedom of association requires the right to discriminate.

Socialist feminists were not and are not similarly restricted. If possible, they use the state—even the patriarchal state, the nemesis of women—to enforce their version of a just society. After all, the socialist ideal of justice apparently can be established by force. A specific economic arrangement conceivably can be imposed on society, whereas a voluntary society cannot be created by force.

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Yet another fundamental difference between the two traditions resides in the concept of class. According to socialist feminism, sex is the political characteristic that defines a class. Men share not only similar biologies, but also political interests, which are maintained through the institution of patriarchy: male culture and economics, or capitalism. The interests of men are necessarily in conflict with the interests of women.

The primary theme of Catharine MacKinnon's book *Feminism Unmodified* is sex as "class." MacKinnon writes, "The first theme is the analysis that the social relation between the sexes is organized so that men may dominate and women must submit and this relation is sexual—in fact, is sex. Men in particular, if not men alone, sexualize inequality, especially the inequality of the sexes."

To individualist feminists the political characteristic that determines the class to which an individual belongs is his or her relationship to the state. There are two basic classes: the political class, which acquires wealth or influence through political power; and the economic class, which acquires wealth or influence through voluntary exchange. Each class contains both men and women who, as individuals, are free to change their class affiliations at will.

Since socialist feminism bases classes on biology, they are stable, and men and women are inevitably enemies. In individualist feminism, the classes are fluid, with individual men and women having no necessary conflicts. This one factor alone may explain why the individualist tradition and history contain as many prominent male figures as female ones, and why gender attacks on men tend to be rare.

Thus, individualist feminism is not merely a position on affirmative action or civil liberties. It is a comprehensive, integrated system of beliefs concerning women's relationship to society. It has a deep, rich history that significantly influenced the status of women in the nineteenth century. It embraces a large body of literature—novels, political tracts, poetry, diaries, speeches—and it involves a distinctive historical interpretation of events such as the Industrial Revolution, which it views as being overwhelmingly beneficial to women.

The richness of this tradition is not surprising when you realize that the very roots of American feminism were profoundly individualistic.

The Individualistic Roots of Feminism

As an organized force, American feminism can be dated from the radical anti-slavery movement, known as abolitionism, that arose in the early 1830s and coalesced around the libertarian William Lloyd Garrison. Although there were many courageous women who advanced the status of women prior to this period, such as Anne Hutchinson and Frances Wright, they spoke out as individuals rather than as part of a self-conscious organization dedicated to women's rights.

Abolitionism demanded the immediate cessation of slavery on the grounds that every human being was a self-owner and had a moral jurisdiction over his or her own body. Gradually, abolitionist women began to apply the principle of self-ownership not only to the slaves, but also to themselves. Historian Aileen S. Kraditor wrote in her book *Up From the Pedestal*: "A few women in the abolitionist movement in the 1830s . . . found their religiously inspired work for the slave impeded by prejudices against public activity by women. They and many others began to ponder the parallels between women's status and the Negro's status, and to notice that white men usually applied the principles of natural rights and the ideology of individualism only to themselves."

The abolitionist feminist Abbie Kelley was a case in point when she observed: "We have good cause to be grateful to the slave, for the benefit we have received to ourselves, in working for him. In striving to strike his irons off, we found most surely that we were manacled ourselves." In 1838, abolitionist Angelina Grimké, in Massachusetts, became the first woman to speak before an American legislative body. Her presentation dramatized how these women mixed the cause of the slave with that of the woman: "Mr. Chairman, it is my privilege to stand before you . . . on behalf of the 20,000 women of Massachusetts whose

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names are enrolled on petitions . . . [T]hese petitions relate to the great and solemn subject of slavery . . . and because it is a political subject, it has often tauntingly been said that women have nothing to do with it. Are we aliens because we are women? Are we bereft of citizenship because we are mothers, wives, and daughters of a mighty people?"

Unfortunately for American individualism in all its manifestations, the Civil War erupted. If "war is the health of state," as Randolph Bourne claimed, then it is the death of individualism. At its roots, the individualist tradition is anti-statist, and war inevitably involves an increase in state power that never seems to roll back to prewar levels when peace resumes. The Civil War expanded state powers to include conscription, censorship, suspension of habeas corpus, political imprisonment, and legal-tender laws, and it dramatically increased taxes and tariffs. Individualism waned.

The Civil War also changed the face of feminism. Before the war the movement had been tending toward political activity, especially toward the demand for suffrage. In attending the 1840 World Anti-Slavery Conference in London, Elizabeth Cady Stanton had been embittered by the dismissive treatment women had received there from the less-enlightened English male radicals. William Lloyd Garrison had been so outraged that he withdrew from the floor to sit instead in the curtained-off section to which the women had been ostracized.

In concert with the Quaker abolitionist Lucretia Mott, Stanton planned the pivotal 1848 Seneca Falls Convention. At this convention, a women's suffrage resolution was introduced: "Resolved, that it is the duty of the women of this country to secure to themselves their sacred right to the elective franchise." The resolution met strong resistance from Mott and the old guard of abolitionist feminists who were deeply opposed to using government to solve problems. The suffrage resolution barely passed, although every other one received a unanimous vote.

After the Civil War, feminists again cried out for suffrage. At the behest of the abolitionist men, beside whom they had stood for

Lucretia Mott (1793–1880)

so many years, feminists shelved their own interests and fought instead for the Fourteenth and Fifteenth Amendments. They hoped for women to be included within the wording. The Fourteenth Amendment linked a state's basis for representation in the Congress to its protection of the right of male inhabitants to vote—at least, the right of males over 21 who were not untaxed Indians. The Fifteenth Amendment declared that the right to vote could not be abridged because of "race, color, or previous condition of servitude": no mention was made of sex. Women felt betrayed. In the *History of Woman Suffrage* Susan B. Anthony wrote, "We repudiated man's counsels forever." Perhaps this was the beginning of the emotional backlash against men that some believe now characterizes feminism.

In contrast to mainstream feminism, individualist feminists, who opposed political solutions, tended to express themselves through a variety of other social causes where they functioned as a voice for woman's rights. The most important was Free Love, a movement that had no connection whatsoever to licentious behavior. It simply declared that all peaceful sexual choices, such as marriage and birth control,

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were to be left entirely to the adults involved, with no government interference.

The main Free Love periodical for individualist feminists was the provocatively entitled *Lucifer the Light Bearer* (1883–1907), edited by Moses Harman. In the late 1800s, this periodical was one of the few forums to openly promote birth control as a choice. Its main ally in doing so was *The Word* (1872–1893), a libertarian periodical edited by Ezra Heywood.

Harman insisted that woman's self-ownership be fully acknowledged in marriage and other sexual arrangements. Unfortunately, in living his principles, Harman ran counter to the Comstock laws (1873), which prohibited the mailing of obscene—undefined—material. In February 1887, most of the staff of *Lucifer* was arrested for publishing three letters. One had described the plight of a woman whose husband forced sex on her even though she was recovering from an operation. It is the earliest analysis I have found that identified forced sex within marriage as rape and that called on the law to recognize it as such.

The staff was indicted on 270 counts of obscenity, although only Harman was imprisoned in the end. For decades thereafter, he fought the Comstock laws, his last imprisonment coming in 1906 when he spent a year at hard labor, often breaking rocks for eight hours a day in the Illinois snow. Harman was 75 at the time.

Although it is natural to assume that nineteenth-century feminists applauded Harman's courage in standing up for women's rights, this was not the general response. Mainstream feminists often supported statutes that restricted birth control information, considering it to be obscene. One of the pledges of the women candidates in the Kansas election of 1889, for example, was to shut down Harman's periodical, which issued from their state. In his book *The Sex Radicals*, historian Hal D. Sears observed, "Conventional feminists bowed before the [Comstock] statute." The individualist feminists "on libertarian principles, broke this law in order to raise the questions of government censorship and individual self-ownership."

Thus the earliest voices to call for women's freedom in sex matters were individualist ones.

I chose a man to exemplify individualist feminism to illustrate and acknowledge the importance of male contributions to the tradition. But Harman illustrates another point as well. Although he is more recognized than most other nineteenth-century individualist feminists, who remain buried in the pages of crumbling periodicals, Harman is rarely identified with that tradition. Part of the reason for this may be a general unfamiliarity with the theory and history of individualist feminism, which leaves historians no accurate ideological context into which such figures can be placed.

Today, the ideology of contemporary feminism seems to be evolving into a dogma with which women cannot disagree without being defined out of the movement. More and more there seems to be only one stand that a card-carrying feminist is allowed to take on issues such as sexual harassment or affirmative action. There has never been a greater need for feminism to remember its roots and to throw open the doors of discussion. □

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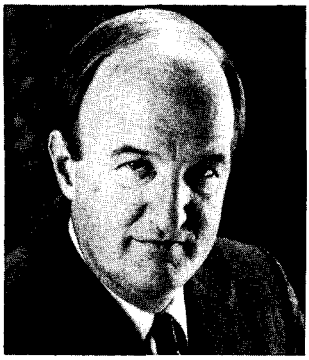

What's Left of Marxism?

"The world described by Marx and Engels in 1848 in passages of dark, laconic eloquence, is recognizably the world we live in 150 years later."
—ERIC HOBSBAWM[1]

Communism as a political movement may be dead, but Marxism as an intellectual movement lives on. This year marks the 150th anniversary of the publication of Karl Marx and Frederick Engel's profound polemic, *Manifesto of the Communist Party*. The date may have been missed by devotees of the free market, but the 1848 pamphlet is being reviewed and celebrated by radical intellectuals everywhere. A dressed-up "modern" edition has just been published, with an introduction by historian Eric Hobsbawm, who presumably would like to reignite the dying flames of Marxist dogma.

Gary North has his "fat book" theory: all revolutionary works are tomes of biblical proportion. Adam Smith's *The Wealth of Nations*, Ludwig von Mises's *Human Action*, and Ayn Rand's *Atlas Shrugged* come to mind. Marx wrote a three-volume work, *Das Kapital*. But there are also a handful of declarations, pamphlets, and small books that have changed the world. Thomas Jefferson's "Declaration of Independence," Tom Paine's *Common Sense*, and the Four Gospels of the New Testament are good examples.

The Communist Manifesto fits into the second category. In rereading it, I couldn't help feeling the passionate power, the pungent style, and the astonishing simplicity of Marx and Engels's words. I can easily see how a young revolutionary could be swayed by these unforgettable lines: "A specter is haunting Europe—the specter of Communism. . . . The history of all hitherto existing society is the history of class struggles. . . . Let the ruling classes tremble at a communistic revolution. The proletarians have nothing to lose but their chains. They have a world to win. WORKING MEN OF ALL COUNTRIES, UNITE!"

I can remember feeling similar emotions when I read Murray N. Rothbard's *What Has Government Done to Our Money?*, first published in 1963 (Mises Institute, 1990). It will change forever your view on money and economics. And his penetrating essay, "The Great Society: A Libertarian Critique," will forever change your outlook of government.[2] Rothbard is the free market's answer to Marx.

Market vs. Government Failure

But the attraction of *The Communist Manifesto* is ideological as well as emotional. How can anyone not be moved—favorably or unfavorably—by this critical appraisal of "bourgeois" capitalism: "The bourgeoisie . . . has left remaining no other nexus between man and man than naked self-interest, than callous

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'cash payment.' It has drowned the most heavenly ecstasies of religious fervour, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom—free trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation."[3]

Marxist rulers may no longer control the political and economic lives of millions, but their ideology of exploitation, alienation, and class struggle still haunts the academic world of law schools, sociology departments, and literary-theory classes. According to Hobsbawm, Marx's insights on capitalism are relevant today. Hobsbawm envisions capitalism as "a world system capable of marshalling production on a global scale; its devastating impact on all aspects of human existence, work, the family and the distribution of wealth; and the understanding that, far from being a stable, immutable system, it is, on the contrary, susceptible to enormous convulsions and crisis, and contains the seeds of its own destruction."[4] And I thought Austrians were doomsdayers!

The Marxists of yesteryear are the social democrats of today. M.E. Sharpe, publisher of *Challenge* magazine, recognizes the mistakes of Marx and Engels, such as failing to consider the vast improvement in the living standards and real wages of "the working class" during the twentieth century, but still grants Marx's main theme, "the celebrated characterization of mid-century capitalism as an enormously expansive but unstable system of production."[5]

But modern-day followers of Marx focus too much on the alleged failures of the market. Today the best and the brightest of economists are investigating the problems of society in terms of "government failure"—public education, corporate welfarism, monetary manipulation, price controls, and state interventionism.

The Declining Marx

Fortunately, Marxist influence among academic economists appears to be on the wane. It was in its heyday in the turbulent 1970s, when Paul Samuelson remarked in the tenth edition of his celebrated economics textbook (1976) that "at least a tenth of U. S. economists" fell into the "radical" category.[6] E.K. Hunt's radical textbook, *Economics: An Introduction to Traditional and Radical Views*, was last published in 1990 and is out of print. Today's hotbeds of Marxism may still exist in a few universities in Massachusetts and California—and strangely enough Utah—but in the main, Marxism has lost its mystique. The Union of Radical Political Economists still gathers the faithful at the annual meetings of the American Economic Association, but attendance is low.

Marx's Critics

There have been some excellent criticisms of Marx. Austrian economist Eugen Böhm-Bawerk was the first to offer a devastating attack on Marxist's theory of exploitation and surplus value, from which the Marxists have never fully recovered. Böhm-Bawerk demonstrated that entrepreneur-capitalists take greater risks than wage-earners, which justifies the disparity in income levels. Oddly enough, Böhm's book, *Karl Marx and the Close of His System* (Orion Editions, 1984), is published by Marxists, with rebuttals by Rudolf Hilferding and Paul M. Sweezy. More recently, David Conway's *A Farewell to Marx* (Penguin Books, 1987) has received high praise for his deft criticisms. The best biography of the father of communism remains by far Robert Payne's *Marx* (Simon & Schuster, 1968). Now that *The Communist Manifesto* is back in print, perhaps it's time to bring Payne's book back, too.[7] □

1. Eric Hobsbawm, "Introduction," *The Communist Manifesto: A Modern Edition*, by Karl Marx and Frederick Engels (London: Verso, 1998), p. 16.
2. It is reprinted in Richard Romano and Melvin Leiman, eds., *Views on Capitalism* (Glencoe, Ill.: Glencoe Press, 1970), pp. 86–94.
3. Marx and Engels, pp. 37–38.
4. Hobsbawm, dustjacket, Marx and Engels.
5. M.E. Sharpe, "Review of *The Communist Manifesto*," *Challenge*, May–June, 1998, p. 114.
6. Paul A. Samuelson, *Economics*, 10th ed. (New York: McGraw-Hill, 1976), p. 849. The 9th edition (1973) contained a nine-page appendix on Marxian economics. Today's 16th edition (1998) contains only one page on Marx, and Samuelson is generally critical of Marxian economics.
7. A fascinating update on Marx's life is found in Gary North, "The Marx Nobody Knows" in *Requiem for Marx*, ed. Yuri N. Maltsev (Auburn, Ala.: Mises Institute, 1993). This book contains some excellent material on Marxism written by Austrian economists.

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BOOKS

Why Our Children Can't Read and What We Can Do About It

by Diane McGuinness

The Free Press • 1997 • 384 pages • $25.00

Reviewed by Samuel L. Blumenfeld

This is a very valuable and useful book, especially for those of us in the reading instruction field who have been engaged in a long, drawn-out war with the teaching establishment. The first shots of that war were fired in 1955 when Rudolf Flesch wrote his famous *Why Johnny Can't Read and What You Can Do About It*, in which he told parents that the reason Johnny couldn't read was that he had not been taught to read in the proper phonetic way.

Flesch explained how in the early 1930s, the professors of education changed the way reading was taught in American schools. They threw out the alphabetic-phonics method, which is the proper way to teach children to read an alphabetic writing system, and replaced it with a new whole-word, look-say, or "sight" method that taught children to read English words as if they were whole configurations, like Chinese characters. Flesch observed that when you impose an ideographic teaching method on an alphabetic writing system, you cause symbolic confusion that leads to reading failure.

Needless to say, the professors of education paid no attention to Flesch. Instead, they formed the International Reading Association, which became the citadel of whole-word pedagogy. As a result, America began to experience the strange phenomenon of declining literacy while having more children spend more time in school at greater taxpayer expense than ever before. By 1993, the U.S. Department of Education reported that 90 million Americans—half the adult population—were considered borderline illiterates.

Meanwhile, the professors were also busy revising their whole-word teaching methods. Dick and Jane metamorphosed into "psycholinguistics," the notion that reading is a "psycholinguistic guessing game," which then evolved into what is now known as "whole language," a concept of reading that defies all logic and common sense.

The basic premise behind whole language is that children learn to read as naturally as they learn to speak. Thus, they really need very little, if any, formal instruction. Of course, if this were true, there would be no illiterates! But what is even crazier is the definition of reading given by three whole-language professors in their book *Whole Language, What's the Difference?* (1991). They write: "From a whole language perspective, reading . . . is a process of generating hypotheses in a meaning-making transaction in a sociohistorical context. . . . This view of reading implies that there is no single 'correct' meaning for a given text, only plausible meanings." Amazing.

And now we come to the present book by Diane McGuinness, who enters the fray as a "cognitive developmental psychologist." Linguistics is considered a branch of cognitive science, and it was pioneer linguist Leonard Bloomfield of Yale University who first focused the attention of linguists on the way reading was being taught in American schools. In a critical essay published in the April and May 1942 issues of the *Elementary English Review*, Bloomfield contrasted the differences between an alphabetic writing system and an ideographic one, insisting that the former must be taught phonetically. He explained that the spoken language was composed of a limited number of identifiable, distinctive sounds, which he called *phonemes,* each of which is represented in the written language by a *grapheme.* In teaching a child to read, it was necessary to teach the *phoneme-grapheme* correspondences. This, by the way, is the basic principle behind Bloomfield's own reading program, *Let's Read,* which was published in 1961.

McGuinness accepts Bloomfield's linguistic views, which were later further developed and modified by the pioneering work of Isabelle Liberman. Bloomfield believed that children should not be taught the letter sounds

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in isolation. But Liberman discovered that having a phonemic awareness, an ability to segment words into their individual phonemes, was a crucial factor in becoming a good phonetic reader. Thus, McGuinness's own approach to teaching reading, based on Liberman's findings, relies heavily on teaching the phonemes of the language as the first step in learning to read. McGuinness insists that her approach should not be confused with traditional phonics, of which she is somewhat critical. But what she doesn't take into account is the fact that many reading programs that call themselves phonics are anything but true intensive, systematic phonics, the kind responsible for the high literacy of the past.

Because McGuinness has had to deal with children with severe reading disorders, she became acutely aware of the whole-language method that was causing those disorders. The result is that this book contains probably the most devastating critique of whole-language philosophy written to date. She believes that the scientific evidence is so overwhelmingly against whole language that the educators will simply have to change their ways. We earnestly hope that McGuinness is right.

She must be praised for giving us not only a new scientific approach to teaching reading, but also a plethora of information about the literacy crisis, much fascinating historical background on the development of alphabetic writing, and a critical look at such disabilities as dyslexia and attention-deficit disorder, which she asserts are caused by faulty teaching methods. This is a book that can inspire much-needed change if the educators are open to such change. But whether or not the educators change, I believe that many parents and teachers can gain greatly by reading this very honest book. □

Samuel Blumenfeld has written extensively on education. His books include Is Public Education Necessary? *(1981) and* The Whole Language/OBE Fraud *(1996).*

Liberal Racism

by Jim Sleeper

Viking Press • 1997 • 195 pages • $21.95

Reviewed by Brad Stetson

Martin Luther King, Jr., once said, "It is not a sign of weakness, but a sign of high maturity to rise to a level of self-criticism." By such a standard, author and veteran essayist Jim Sleeper is a strong and intellectually mature "liberal." (As Sleeper uses the term, "liberal" means welfare statist.) Yet, judging by his own vigorous critique of the mess modern welfare statism has made of contemporary race relations, he is a rarity among his ideological ilk. Indeed, it is the consistent refrain of this provocative if occasionally frustrating exposition of liberal racism that the contemporary liberal mind "no longer curbs discrimination but invites it . . . does not expose racism but recapitulates and reinvents it; and [in] its tortured racial etiquette begets more racial epithets, just as hypocrisy fuels hostility."

Sleeper's smooth narration of this descent into radical race-consciousness and color-coded thinking duly notes the array of individuals, institutions, and policies we have come to recognize as some of the most socially corrosive and restrictive forces of our public life: Louis Farrakhan and Andrew Hacker, the *New York Times* and the NAACP, the racial gerrymandering of congressional districts and the new cult of "diversity," which Sleeper understands as little more than camouflage for reverse racism. Today's liberalism has forsaken the American vision of a nation based on values rather than ethnicity. With every exaggerated racial grievance and publicity-grabbing protest trumpeted by the race lobby, we drift further away from the transracial ideal Sleeper clearly recognizes as central to the true American creed.

Yet, though he is a trenchant critic of this racial obsession, Sleeper remains a "liberal," and is averse to what he sees as conservatism's (and libertarianism's) continued "racism."

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It is here that Sleeper stumbles. Like so many of his persuasion, Sleeper is unable to resist the temptation to impugn the motives of those who dissent from the idea that coercive government policies are necessary or desirable ways to bring about greater equality and integration. His argument is peppered with tellingly vague references to "conservative racism." Sleeper recognizes that the "right" is not as racist as the official story of politically correct "liberalism" asserts, but he is unable to bring himself to forsake the comforting assumption that conservatives' appeals to religious faith and cultural renewal—and libertarians' appeals to private property and the free market—cloak an unspoken loathing of black people that still constrains their progress.

Sleeper falls far short of demonstrating the reality of such nefarious machinations, and his retention of this belief ultimately dilutes the power of his argument. To Sleeper and others in the same orbit, no real evidence is needed. Lack of interest among conservatives and libertarians in race as a public category is essentially de facto proof of malevolence and bad faith. That non sequitur tells us much about the minds of "mainstream" welfare statists.

But there is a more significant shortcoming in Sleeper's analysis. While his obviously sincere desire for black progress draws him to advocate voluntary associations (civic groups, churches, recreational leagues) for community advancement, he evinces a persistent but unexplicated hostility toward capitalism. Such animosity prevents him from envisioning the myriad possibilities it offers for both the economic empowerment of impoverished communities and the production of the shared interests he so desperately seeks among Americans of different cultures and classes.

While Sleeper bemoans the putative incivilities of "classism," the dynamism of capitalism as a builder of both wealth and community escapes him. He uncritically echoes the leftist denunciation of capitalism as averse to civil society without stopping to consider the substantial civic dividends a robust and unfettered market offers.

When he sticks to writing about the title of the book—racism—there is much that is valuable and right with Sleeper's critique. When he strays off into an analysis of conservative and libertarian views (or what he imagines those views to be), he misses the mark. Sleeper has seen the harm of "liberal racism," but unfortunately fails to make a complete break with group-centered thinking and embrace individualism and the peaceful order of the market. □

Brad Stetson (blsdi@aol.com) is director of The David Institute, a social group in Tustin, California. He is coauthor of Challenging the Civil Rights Establishment *(Praeger, 1993) and co-editor of* Black and Right: The Bold New Voice of Black Conservatives in America *(Praeger, 1997).*

Common Sense and Common Law for the Environment: Creating Wealth in Hummingbird Economies

by Bruce Yandle

Rowman and Littlefield • 1997 • 182 pages • $56.00 cloth; $23.50 paperback

Reviewed by P. J. Hill

Surely one of the more problematic issues for people with a principled commitment to free markets is the environment. Such people generally have a deep respect for individual rights, and environmental problems do seem to represent rights violations. But, in the modern political framework, saying that tends to put one in league with the denizens of the left: central planners, people who hate modern technology, anti-capitalists, and other socialist fellow travelers. Is there a way of approaching environmental problems that both recognizes the primacy of individual rights and the importance of limited government? Bruce Yandle, professor of economics at Clemson University, provides the best answer that I know of in his most recent book, *Common Sense and Common Law for the Environment.*

Yandle begins his book with a description of a common-access resource—a hummingbird feeder in his back yard. He argues that

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environmental problems are essentially common-property problems and the important issue is whether institutions can evolve to successfully manage these commons. Yandle classifies the social institutions for managing common-access resources as two types: the process approach and the systems approach. The process approach uses constitutional constraints that evolve from community standards and provide an overall framework for markets. This approach allows for the gradual evolution of rules in response to bottom-up pressure from individuals and groups. The process approach is generally conducive to voluntary transactions and uses property rights as the fundamental organizing principle for a society.

In contrast, the systems approach is much more centralized and uses top-down rules for solving the open-access problem. In the words of Yandle: "voting, politics, statutes, and regulations are dominant themes found in the systems approach. Markets, property rights, and the rule of law are dominant characteristics for the process approach."

The common law is the most fully developed aspect of the process approach and the author does an excellent job of explaining how certain features of the common law are well suited to dealing with pollution and other environmental problems. The doctrines of trespass and nuisance have great relevance for situations in which property rights are violated. The use of those doctrines to resolve environmental problems has several advantages over alternative approaches.

First, under the traditional interpretation of common law, actual harm must be shown. Second, the bringing of a common-law suit depends on initiative by one who thinks he is harmed and thus only people with direct involvement in the issue have reason to bring suits. This is because the common-law remedy is either to pay damages to the one harmed or to secure an injunction to stop the harmful activity. Therefore, outsiders have no incentive to engage in frivolous activity, a situation quite different from statute solutions. Finally, the common law does not attempt to engage in social engineering by deciding if the benefits from some particular activity outweigh the harms caused. Rather, the common-law approach provides for the definition and enforcement of property rights, and if some particular activity generates more benefits than harms, the parties can contract to resolve the dispute ahead of time. For instance, in the early part of this century, paper-mill owners in Wisconsin compensated downstream owners of riparian rights before they put in their mills in order to avoid common-law suits.

However, since the advent of the modern regulatory state, the common law has not been allowed to evolve and has even been pre-empted in most cases by statute. Yandle provides an insightful discussion of the process of the pre-emption of common law, and also lays out a path by which we could return to more of a common-law framework. He does not avoid the hard cases, where common-law solutions appear difficult because of a large number of people being harmed; he presents practical suggestions as to how the regulatory state can be minimized and how the common-law approach can be used in most cases.

This is an excellent book grounded in the real world. It neither ignores environmental problems nor assumes that mandated, centralized solutions will work simply because we want them to. Yandle is an informed, careful analyst who brings years of experience in teaching and researching to bear on these issues. Our present environmental approach is crude, heavyhanded, highly politicized, and in many cases we pay a great deal for minimal results. *Common Sense and Common Law for the Environment* provides a realistic alternative to our present morass of rules and regulations. It is hard to think of a better book for gaining useful insights into practical solutions to our environmental problems. □

Peter Hill is a senior associate of the Political Economy Research Center in Bozeman, Montana, and professor of economics at Wheaton College, Wheaton, Illinois.

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The Virtue of Civility: Selected Essays on Liberalism, Tradition, and Civil Society

by Edward Shils; edited by Steven Grosby

Liberty Fund • 1997 • 396 pages + index
• $16.00 cloth; $8.00 paperback

Reviewed by Robert A. Sirico

After decades of interest groups aggressively asserting their "rights," often gained only at the expense of others, our political culture is starting to take notice of the notion of "civility." The left identifies the word with a plea that greater respect be given politicians and their programs, while the right demands more civility as a means of reining in individuality and freedom of expression in new modes of technology, like the Internet. Both perspectives overlook an older and more robust notion of civility that does not force a choice between individuality and the community. It is the classically liberal idea of civility as a concern for the interests of "private" authority and order, such as the family, religious institutions, clubs and community organizations, and the market economy itself. It is this notion of civility—its meaning, history, and application to our current political and cultural setting—that is so brilliantly explored in this collection of essays by sociologist Edward Shils.

The process of recapturing the classically liberal idea of civility and the common good began in 1989 with Michael Novak's monumental treatise, *Free Persons and the Common Good*. While Novak presented the intellectual backdrop to an idea of the common good (a civic concern) that accords with liberty, Shils picks up the task of reconstructing the intellectual history of the decline of liberalism from the early part of this century and applying the older notion of civility to the contemporary political setting. From his survey, we learn that liberalism contains within itself what Shils calls antinomies, parallel truths that can never be fully reconciled.

Defense of the rights of individuals is central to the idea of liberty, but so is support for community attachment. Suspicion of power is crucial to maintaining liberty, but respect for law is a cornerstone of society. Love of certain traditions must be maintained in a liberal society, but detachment from them is a means of social progress. Shils argues that these antinomies within liberalism, among others, help explain how American liberals went from heralding market relationships and entrepreneurial opportunities to restricting them by means of state power.

Shils distinguishes two types of liberalism ascendant in this century, neither of which satisfy his plea for civil liberalism. The first is "autonomist" liberalism. The supporters of this view once appreciated the importance of a market economy, but when the notion of scientific social planning was introduced in the Progressive Era, they came to believe that science and reason could be used as a means of bringing about the social progress that was originally behind their support for the market economy. By the time of the New Deal, they had come full circle toward embracing central planning, while simultaneously holding that central planning posed no threat to political rights and freedom of expression. It was to this group that F. A. Hayek addressed his 1944 book, *The Road to Serfdom*. Shils provides a similar critique, combined with a trenchant analysis of how it is that autonomist liberals came to be cheerleaders for this century's totalitarian regimes.

The second type is what Shils calls "philanthropic liberalism." This stems from the humanitarian desire to uplift the downtrodden. It turns that desire into a first principle of government. Philanthropic liberalism came to support a massive cradle-to-grave welfare state, but once wedded to this new redistributionist apparatus, was unable to admit to the failure of welfare to accomplish its ends.

The casualty of both types of liberalism is the idea of liberty and an understanding of the civil cooperation that flows from voluntary association in a free society. It is this liberalism that Shils makes a strong plea for recapturing. In a setting of freedom, people cooperate to their mutual advantage and thereby reinforce civil modes of behavior. At the same time, as Shils makes clear, freedom needs a foundation in civil norms so that it may be

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protected. Thus, Shils doubts that civility can be recaptured through either use of public policy or through the untrammeled exercise of individual rights. What needs to be cultivated, through social institutions like the family and houses of worship, is a sense of civic virtue, that is, a consensus in favor of social norms like honesty, cooperativeness, concern for the welfare of others, and so on.

What emerges from Shils's discussion is a rich social theory that present-day libertarians would do well to reflect upon, so that they might realize that freedom has never existed, much less thrived, in a moral vacuum. Shils does not believe that this vacuum can be filled by the state or its kept institutions, such as the modern university.

The task of restoring true liberalism remains an intellectual one above all. And for a task so worthy, we should be bold enough to add that the ultimate solution depends on our view of the ultimate place and dignity of the human person. Shils's analysis does not take us quite so far, but it prepares the way. □

Father Robert A. Sirico is president of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan.

Property and Freedom

by Bernard H. Siegan

Transaction Publishers • 1997 • 291 pages • $34.95

Reviewed by George C. Leef

Bernard Siegan, professor of law at the University of San Diego, has been a pioneer in the analysis of government land-use controls. His 1972 book, *Land Use Without Zoning,* is a classic. If you want to rock a zoning advocate back on his heels, reading that book is the best preparation. The fact that Siegan refuses to bow down before statist deities like land-use planning explains why he is still a professor. He was nominated for a seat on the Ninth Circuit Court of Appeals back in the 1980s, but his nomination died in the Senate Judiciary Committee, then firmly under the control of opponents of private property rights and the free market. Judge Siegan would have been a voice of reason on the bench, but Professor Siegan continues to wage war against those who misinterpret the Constitution and promote the folly of government land-use regulation.

In *Property and Freedom*, he brings together decades of work. From the debates over the meaning of the Constitution to the most recent court decisions in the land-use field, this is *the* book to have if you want to be well informed on the issues.

Siegan begins at the bedrock, laying the foundation in an excellent first chapter, "Why Property Rights are Important." Property is essential to individual happiness and to human progress. "What does it mean," he asks, "to labor, innovate, or create if the material rewards of those efforts can be arbitrarily taken away by the state?" It means, of course, that you have wasted your efforts. The framers understood the importance of property and that is why the Constitution was written to protect property rights against anticipated governmental depredations. Unfortunately, the judiciary has often failed to perform its role as a firewall against legislative and executive attacks on property rights, as Siegan's recounting of the famous property-rights cases makes painfully clear.

When he gets to dissecting the Supreme Court's decisions that have permitted the vast proliferation of governmental land-use controls that now plague us, Siegan is a master at work. Consider, for example, *Village of Euclid v. Ambler Realty*, the case that gave the green light to comprehensive zoning. The zoning ordinance was argued to be a reasonable means of protecting the residents against nuisances, but Siegan shows this contention to be fatuous. Alas, Justice Sutherland, usually a reliable defender of limited government, did not have the benefit of Siegan's insight when he wrote the majority opinion.

The trouble with zoning is not just that it is "abused," as many zoning advocates admit. It is an inherently bad policy, the author contends. The problem is that land-use decision-making is taken from owners and developers, who know the most and stand to gain from being right about the optimal locations for housing developments, shopping centers, and

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gas stations, and is given instead to politically chosen planning officials who know little and have no incentive to make intelligent decisions. "Because they cannot comprehend market forces as business people do, planners . . . will tend to allow development where it is not feasible and to prohibit it where it is," he writes. Once again, Siegan shows that zoning is built on sand.

He is guardedly optimistic about the current trend in property-rights jurisprudence. The Supreme Court's recent "takings" cases, especially *Lucas v. South Carolina Coastal Commission*, have given a black eye (if not the blackest one possible) to the politicians and bureaucrats who are always looking for excuses to increase their control over private property. In this and other land-use cases, the Court has moved away from the policy of spineless deference to legislatures and planning boards to uphold the principles of the Constitution.

Encouraging as recent decisions may be, we are still very much under the heel of the planners, zoners, and takers. If we should ever get out from under that heel, it will be due in large measure to the indefatigable Professor Bernard Siegan. □

George Leef is book review editor of The Freeman.

J.-B. Say: An Economist in Troubled Times

Edited by R. R. Palmer

Princeton University Press • 1997 • 167 pages • $39.50

Reviewed by Aaron Steelman

Jean-Baptiste Say is best known as the formulator of "Say's Law"—the dictum that overproduction can never be more than a transitory phenomenon—and as a popularizer of the ideas of Adam Smith. But he was much more than that. Indeed, he made important contributions to several branches of economic thought and in many ways was a more sophisticated thinker than Smith.

In *J.-B. Say: An Economist in Troubled Times*, R. R. Palmer, author of the monumental two-volume work *Age of the Democratic Revolution: A Political History of Europe and America*, has collected and translated a number of Say's writings that have never before appeared in English. Together, they lend further insight into Say's thoughts on economics, politics, history, and culture.

The book is divided into six roughly chronological sections. Readers of *The Freeman* will likely find sections three and four—"The Frustrated Economist" and "The Innovative Economist"—of considerable interest, since they contain numerous selections from the first edition of Say's *Treatise on Political Economy*, which was suppressed by Napoleon at the time of publication. Through these writings we learn of Say's views on natural law, subjective value, economic regulation, free trade, and methodology.

According to Say, despots who believe they can produce a desired outcome through legislation and brute force do not understand how the world works. "Political Economy, like the exact sciences," writes Say, "is composed of a small number of fundamental principles and a great many corollaries that follow from these principles. . . . These principles are not the work of men; they derive from the nature of things. They are not established; they are found. They govern lawmakers and princes, who never violate them with impunity."

Say also argues that it is an error for his fellow social scientists to employ the methods of physicists, chemists, and other physical scientists. "Since values . . . are subject to human will, abilities, and needs they are within the domain of moral science. And this, let it be said in passing, is why it is superfluous to apply algebraic formulas to demonstrations in Political Economy. None of its quantities is susceptible to exact estimation."

He warns policymakers that economic regulation often harms its intended beneficiaries, and that once one intervention is permitted, there can no longer be principled objections to others. "Nothing is more dangerous than views that lead to regulation of the use made of properties," argues Say. "To do so is as bold as trying to regulate the innocent use that a man might make of his own hands and faculties, which are also a form of property. If the authorities can require an employer to pay a

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certain wage, they can require the worker to perform a certain labor. With such a system slavery reappears."

Despite such a strong indictment of statist regulatory schemes, Say, like many of his classical liberal contemporaries, was not a pure free marketeer. Indeed, in this book we learn, for example, of his support for government schools and of French imperialism in Egypt. His writing in favor of the latter is a chauvinistic embarrassment.

Palmer's collection captures Say's views on many other noteworthy topics, including the British Corn Laws, the oppression of the Irish by the English, and the supposed damaging effects of population growth (which foreshadow the arguments he would make against Thomas Malthus two decades later). In addition, it contains correspondence between Say and Thomas Jefferson, Say's most important supporter in the United States.

Jean-Baptiste Say was a great and original thinker, whose wisdom has been underappreciated for almost two centuries. Interventionists and classical liberals alike would do well to consult this collection of his writings and remember his admonition that nations "are not nourished by the men charged with governing them, but by the men of whom nations are made. That is where the *thought* and the *action* by which society subsists are lodged." □

Aaron Steelman is a reporter with Investor's Business Daily.

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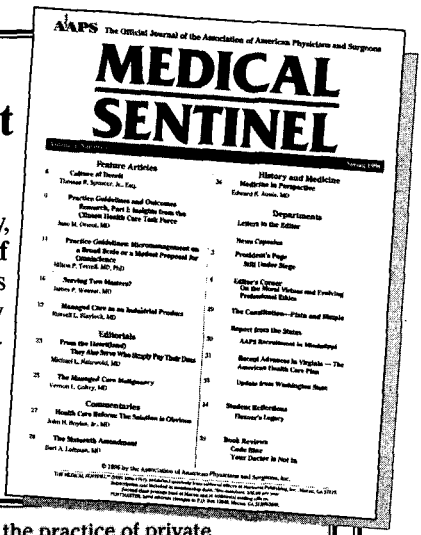

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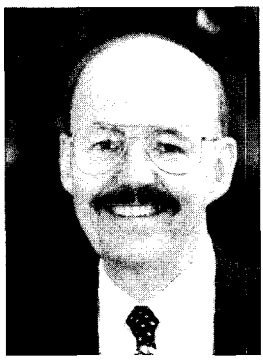

Who Wins in Strikes?

There are at least five groups of people who are affected by labor union strikes—employers, their employees, union officials, and the customers and suppliers of the strike targets. Union officials would have us believe that striking workers are the biggest beneficiaries of such conflicts and that those benefits come at the expense of employers and the investors they represent. They almost never mention the gains they get for themselves, and they usually ignore the effects on customers and suppliers.

Under American labor law all strikes involve the legal use of private coercion, and many involve outright violence. A picket line has one purpose—to prevent, or to try to prevent, replacement workers, customers, and suppliers from engaging in voluntary exchange with strike targets. It is a physical barrier to the target's property, and anyone who crosses the line is in danger of harassment and physical harm. Last summer's Teamsters strike against UPS illustrates the point. In any other context a picket line would constitute trespass. Many people wink at coercion and violence in strikes while they condemn both elsewhere. I think that is because they mistakenly believe that strikes benefit workers.

The late W.H. Hutt, a leading twentieth-century free-market labor economist, taught that any gains received by striking workers or union officials are ultimately paid for by consumers and other workers, not by employers and the investors they represent. Strikes do not benefit workers in general. Many empirical studies support Hutt's hypothesis. Now we have empirical evidence that indicates that even striking workers gain very little, if anything, from strikes. The big winners are union officials and the institutions they rule. Those gains are appropriated at the expense of consumers, union-free workers, and, very often, striking workers.

The Employment Policy Foundation (EPF) in Washington, D.C., recently produced important data on who wins from strikes. Consider, for example, the 1997 UPS strike. EPF compared the cumulative wages that both full-time and part-time workers would have received had the Teamsters accepted the last offer made by UPS prior to the strike with the cumulative wages they will receive because of the strike in the years 1997 through 2001, the life of the new contract. In 1997 the strike made part-time workers worse off by $2,126 and the full-time workers worse off by $3,703. In 1998 the respective figures are $2,126 and $2,303; in 1999, $1,866 and $703; and in 2000, $2,402 and $963. In 2001, part-timers will be worse off by $1,018, and full-timers will be better off by $2,237.

Thus, notwithstanding that Ron Carey (president of the Teamsters at the time) proclaimed that the strike was for the good of the part-timers as well as full-timers, the strike makes part-timers worse off in every year of the contract, while the full-timers will be

Charles Baird is a professor of economics and the director of the Smith Center for Private Enterprise Studies at California State University at Hayward.

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worse off in every year except the last. When these numbers are put together with the indisputable fact that the pension plan forced on the workers by the Teamsters is much less remunerative than the plan offered by UPS, it is clear that all UPS workers represented by the Teamsters have lost out because of the strike.

The UPS strike is not unique. From 1985 to 1996 there were 91 major strikes (involving more than 5,000 workers each) in the United States. Investigators at EPF were able to assemble data on 18 of those strikes in which wages were an important matter of dispute. Again, they compared the employers' final pre-strike offers with post-strike settlements. First, they calculated the undiscounted cumulative dollar losses (or gains) to workers over the life of each post-strike contract. Second, they calculated the number of years required for workers to recoup their losses. That is, they calculated the number of years it would take for the present value of the last-offer income that the union turned down to be offset by the present value of the post-strike income received.

Of the 18 strikes there were only two—Conasa (1986) and Farmer Jack (1987)—in which any workers gained in dollar terms over the life of their contracts. The Farmer Jack strike was the only instance where all workers made cumulative dollar gains. In the Conasa case only some workers had cumulative gains. The cumulative losses per worker ranged from $12,637 in the 1996 McDonnell Douglas strike to $704 in the 1985 Western Union strike. The average cumulative loss per worker was $3,945.

At a 10 percent discount rate striking workers in two-thirds of the strikes (12 of the 18) would never be able to recoup their losses if they kept working for the struck employer at the post-strike contract terms. At a 5 percent discount rate striking workers in 10 of the strikes would never be able to recoup their losses.

If most striking workers do not benefit from strikes, who does? As Hutt always taught, union officials have interests that are significantly different from the rank and file. They care mostly about their own promotion and tenure in union hierarchies and their prominence in local, state, and federal political arenas. The survival and growth of their unions are means to those ends. They have only to create the appearance of sufficient gains for their members to keep them from rebelling. Above that, the welfare of workers matters little to union officials.

For example, consider the actions of Teamsters president Ron Carey during the 1997 UPS strike. He was barely re-elected over James P. Hoffa in 1996. In 1997 the government overseer of the 1996 Teamsters election, Barbara Quindel, raised questions about alleged illegal deals in which the Teamsters donated money to Democrats in the 1996 presidential and congressional campaigns in exchange for the Democrats' encouraging their supporters to donate to Carey's campaign. Carey knew of those allegations and the investigation, and the possibility that his election would be voided, before he called the strike on August 4, 1997. He needed a national strike to divert attention from his growing legal problems. He also needed it to solidify the political support of John Sweeney, president of the AFL-CIO, as well as the Teamster rank and file in the event his election was voided. Sweeney has encouraged all AFL-CIO unions to be more confrontational, believing this strategy will reverse the unions' declining share of workers. An apparent victory over UPS would please Sweeney as well as the members.

On August 22, 1997, Quindel announced that the 1996 Teamsters election had been voided and that a new election must be held. From Carey's point of view the strike was well conceived. He was subsequently disqualified from running in the new election and is now on a leave of absence from the presidency while he fights the allegations against him. The election has been delayed until later this year. It is now alleged that the AFL-CIO was itself complicit.

Union officials routinely claim that the strike-threat system makes unionized workers much better off than nonunion workers. On the basis of the recent EPF data it appears that a more apt distinction would be between workers that are union-impaired and those that are union-free. □

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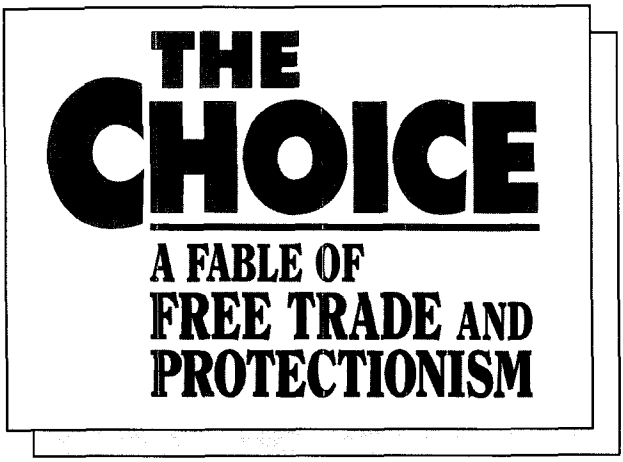

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